

August 11, 2022

Q2CY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	CY22E	CY23E	CY22E	CY23E
Rating	ACCUMULATE		HOLD	
Target Price	3,115		2,293	
Sales (Rs. m)	84,219	1,00,094	81,107	95,979
% Chng.	3.8	4.3		
EBITDA (Rs. m)	8,018	10,009	7,137	9,406
% Chng.	12.3	6.4		
EPS (Rs.)	30.4	38.3	26.7	35.3
% Chng.	14.0	8.5		

Key Financials - Standalone

Y/e Dec	CY21	CY22E	CY23E	CY24E
Sales (Rs. m)	69,340	84,219	1,00,094	1,17,183
EBITDA (Rs. m)	5,567	8,018	10,009	12,175
Margin (%)	8.0	9.5	10.0	10.4
PAT (Rs. m)	4,433	6,452	8,115	9,853
EPS (Rs.)	20.9	30.4	38.3	46.5
Gr. (%)	138.4	45.5	25.8	21.4
DPS (Rs.)	5.2	9.1	11.5	13.9
Yield (%)	0.2	0.3	0.4	0.5
RoE (%)	11.6	15.1	17.0	18.2
RoCE (%)	11.7	16.0	18.2	19.8
EV/Sales (x)	8.2	6.7	5.6	4.8
EV/EBITDA (x)	101.8	70.5	56.3	46.1
PE (x)	133.8	91.9	73.1	60.2
P/BV (x)	14.7	13.2	11.7	10.3

Key Data

ABB.BO | ABB IN

52-W High / Low	Rs.2,851 / Rs.1,618
Sensex / Nifty	59,333 / 17,659
Market Cap	Rs.593bn/ \$ 7,447m
Shares Outstanding	212m
3M Avg. Daily Value	Rs.759.67m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	3.53
Domestic Institution	8.59
Public & Others	12.88
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	7.2	28.4	67.1
Relative	(1.7)	25.9	53.6

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Strong performance continues...

Quick Pointers:

- Better price realization, revenue mix, volume growth and increased capacity utilization, resulted in 303bps YoY EBITDA margin expansion.
- Short cycle orders led order inflows growth of 64% YoY to Rs27.7bn.

ABB India (ABB) reported strong quarterly performance with revenue growth of 44% YoY, driven by short cycle orders and strong traction in exports business, with EBITDA margin expansion of 303bps YoY to 9.7% led by better revenue mix & price realization, healthy volume growth and increased capacity utilization. Revenue contribution from distribution channel increased to 34% from 30% in Q2CY21, driven by penetration in tier 3/4 cities. Going forward, order inflows momentum to continue led by companies focus on strong customer connect through diversified channels. Order pipeline remains strong from high growth sectors such as data center, railways & Metro, F&B and renewables, metals, cements, Oil & Gas. High growth segment such as data centre, renewables, water & wastewater, warehouse logistics, Electronics, F&B, railway, metro etc. will likely be key growth drivers in the medium term. Management targets PBT margins of ~10% going forward.

We remain positive on ABB in long run, given is diversified business model, focus on high growth segment, organic as well as inorganic growth and healthy exports outlook. Given robust enquiry pipeline, increasing share of short cycle orders, penetration in Tier 3 & 4 markets driving volume growth across businesses and focus on operational efficiencies, we have revised our earnings estimates upwards by 14%/8.5% for CY22/CY23. Stock is trading at PE of 91.9x/73.1x/60.2 CY22/23/24E. We roll forward our estimated to CY24 and upgrade rating to 'Accumulate' from Hold with revised TP of Rs3,115 (Rs2,293 earlier) valuing it at PE of 67x CY24E.

Short cycle orders drive revenue: Sales came in at Rs20.5bn, up 44% YoY, (PLe ~Rs17.2bn), led by better execution of opening order book. Motion segment revenue grew 66.6% to Rs8.3bn, Electrification 45.3% to Rs8.4bn, Process Automation 38.5% to Rs3.7bn. While Robotics segment declined 45.9% to Rs482mn, partly impacted due to supply chain constraints and last year revenue had one-time conversion of significant electronics book. Gross margins expanded to 35.7% vs 33.6% in Q2CY21. EBITDA came in at ~Rs2bn (up 110% YoY), (PLe: Rs1.5bn), with margins expanding by 303bps YoY to 9.7%. Adj. PAT came in at Rs1.5bn (PLe ~Rs1.2bn), owing to better operational performance.

High growth sectors drive order inflows: Order inflows grew 64% YoY to Rs27.7bn, driven by short cycle orders. Order book stands at ~Rs60bn, up 31% YoY (0.8x TTM revenue), providing revenue visibility for next couple of quarters. Off the total order book large order accounts ~Rs2.5bn.

Exhibit 1: Strong Quarterly Performance

Y/e March (Rs mn)	Q2CY21	Q3CY21	Q4CY21	Q1CY22	Q2CY22	YoY gr. (%)	QoQ gr. (%)	H1CY22	H1CY21	YoY gr. (%)
Revenue	14,250	17,784	21,015	19,684	20,525	44.0	4.3	40,209	30,541	31.7
Total Revenues	14,250	17,784	21,015	19,684	20,525	44.0	4.3	40,209	30,541	31.7
Expenditure	13,302	16,095	19,163	17,805	18,538	39.4	4.1	36,342	28,558	27.3
<i>as % of sales</i>	<i>93.4</i>	<i>90.5</i>	<i>91.2</i>	<i>90.5</i>	<i>90.3</i>			<i>90.4</i>	<i>93.5</i>	
Consumption of RM	9,099	11,037	13,621	12,429	12,529	37.7	0.8	24,958	20,321	22.8
<i>as % of sales</i>	<i>63.9</i>	<i>62.1</i>	<i>64.8</i>	<i>63.1</i>	<i>61.0</i>			<i>62.1</i>	<i>66.5</i>	
Employee Cost	1,391	1,441	1,513	1,750	1,457	4.7	(16.8)	3,207	2,929	9.5
<i>as % of sales</i>	<i>9.8</i>	<i>8.1</i>	<i>7.2</i>	<i>8.9</i>	<i>7.1</i>			<i>8.0</i>	<i>9.6</i>	
Other expenditure	2,812	3,617	4,029	3,626	4,552	61.9	25.5	8,178	5,309	54.0
<i>as % of sales</i>	<i>19.7</i>	<i>20.3</i>	<i>19.2</i>	<i>18.4</i>	<i>22.2</i>			<i>20.3</i>	<i>17.4</i>	
EBITDA	948	1,689	1,852	1,879	1,988	109.8	5.8	3,866	1,983	95.0
Depreciation	284	263	227	257	253	(10.8)	(1.3)	510	537	(4.9)
EBIT	664	1,426	1,625	1,622	1,734	161.4	6.9	3,356	1,446	132.1
Other Income	252	248	599	373	253	0.5	(32.0)	626	792	(21.0)
Interest	16	20	39	15	28	76.9	91.2	43	48	(9.8)
Exceptional Item	-	-	(468)	(2,934)	-			(2,934)	(745)	
PBT	900	1,654	2,653	4,913	1,959	117.8	(60.1)	6,873	2,936	134.1
Total Tax	216	454	717	1,212	489	125.8	(59.7)	1,701	746	127.9
Reported PAT	683	1,200	1,936	3,701	1,471	115.3	(60.3)	5,172	2,189	136.2
Adjusted PAT	683	1,200	1,594	1,491	1,471	115.3	(1.4)	2,962	1,638	80.8
Adj. EPS	3.2	5.7	9.1	7.0	6.9	115.3	(1.4)	14.0	7.7	80.8
Margins (%)	Q2CY21	Q3CY21	Q4CY21	Q1CY22	Q2CY22	bps	bps	H1CY22	H1CY21	bps
EBIDTA	6.6	9.5	8.8	9.5	9.7	303	14	9.6	6.5	312
EBIT	4.7	8.0	7.7	8.2	8.4	379	21	8.3	4.7	361
EBT	6.3	9.3	12.6	25.0	9.5	323	(1,542)	17.1	9.6	748
PAT	4.8	6.7	7.6	7.6	7.2	237	(41)	7.4	5.4	200
Effective Tax rate	24.1	27.5	27.0	24.7	24.9	88	27	24.7	25.4	(68)

Source: Company, PL

Exhibit 2: Segmental Performance

Segmental Performance	Q2CY21	Q3CY21	Q4CY21	Q1CY22	Q2CY22	YoY gr. (%)	QoQ gr. (%)	H1CY22	H1CY21	YoY gr. (%)
Revenue										
Robotics & Discrete Automation	890	639	544	647	482	(45.9)	(25.5)	1,128	1,369	(17.6)
Motion	5,005	7,002	7,599	7,157	8,339	66.6	16.5	15,496	11,316	36.9
Electrification	5,766	6,933	8,493	8,610	8,378	45.3	(2.7)	16,988	12,096	40.4
Process Automation	2,674	3,396	4,708	3,421	3,704	38.5	8.3	7,125	5,930	20.2
Others	90	108	60	111	112	25.5	1.5	223	336	(33.7)
Less Intersegmental	(174)	(294)	(390)	(261)	(490)	181.0	87.4	(751)	506	(248.3)
Total	14,250	17,784	21,015	19,684	20,525	44.0	4.3	40,209	31,554	27.4
EBIT										
Robotics & Discrete Automation	46	76	28	57	61	33.1	6.3	118	99	19.5
<i>EBIT margin (%)</i>	<i>5.1</i>	<i>11.9</i>	<i>5.2</i>	<i>8.8</i>	<i>12.6</i>			<i>10.4</i>	<i>7.2</i>	
Motion	550	762	1,032	954	738	34.3	(22.6)	1,692	1,445	17.1
<i>EBIT margin (%)</i>	<i>11.0</i>	<i>10.9</i>	<i>13.6</i>	<i>13.3</i>	<i>8.9</i>			<i>10.9</i>	<i>12.8</i>	
Electrification	394	835	1,086	1,180	963	144.7	(18.4)	2,144	1,139	88.2
<i>EBIT margin (%)</i>	<i>6.8</i>	<i>12.0</i>	<i>12.8</i>	<i>13.7</i>	<i>11.5</i>			<i>12.6</i>	<i>9.4</i>	
Process Automation	161	422	411	354	402	149.1	13.4	756	446	69.4
<i>EBIT margin (%)</i>	<i>6.0</i>	<i>12.4</i>	<i>8.7</i>	<i>10.4</i>	<i>10.8</i>			<i>10.6</i>	<i>7.5</i>	

Source: Company, PL

Conference call highlights

- Revenue growth was driven by short cycle order, focus on exports & service business and strong customer connect.
- Exports revenue grew 45% YoY, while service segment grew 14% YoY.
- Tender pipeline remains strong from sectors such as metals, cements, Oil & Gas, data center, railway, F&B and renewables.
- Order inflows: Process Automation segment witnessed inflows from paint industry, while motion business order inflows was driven by railways, renewable energy, F&B and mining. Robotics and Discrete automation business bagged higher paint orders
- Parent company has permanently mandated ABB India to supply certain products in Middle East, South & North America.
- Focus has been on product expansion, operational efficiency and product localization.
- ABB has been adding capacity in its Faridabad, Nashik plant to meet growing demand.
- ABB is targeting tier 3/4/5 cities market through its partner network.
- Traction in large order is being witnessed in sectors such as metals, cement, Oil & Gas.
- Management targets to sustain PBT margin at around 10% levels in medium term.
- **Electrification:** Order inflows grew ~68% YoY to Rs9.7bn, led by strong inflows across segment and increase exports orders. Revenue grew 45% YoY to Rs 8.4bn, driven by uninterrupted operations and efficient supply chain management. Margins expanded to 11.5% vs 6.8% led by higher capacity utilization and price realization.
- **Motions:** Order inflows grew ~43% YoY to Rs10bn, driven by exports, package orders from motors & drives and large traction convertor order from railway. Revenue grew ~67% YoY to Rs8.3bn, driven by higher growth in motors business and strong exports growth. Margins were impacted (8.9% vs 11% last year) due to commodity inflation.
- **Process Automation:** Order inflows grew 98% YoY to Rs7.2bn, led by significant growth in sectors such steel, paint and cement. Revenue grew ~39% YoY to Rs3.7bn, driven by strong order book execution. Service revenue contributed 28% of revenue. Margins expanded to 10.8% vs 6%, owing to increase in volume and higher contribution from services business.
- **Robotics and Discrete Automation:** Order inflows grew 8% YoY to Rs700mn, led by service order and paint related orders. Revenue declined 46% YoY to Rs480mn, owing to semiconductor shortage. Margins came in at 12.5% vs 5.1% led by higher services revenue mix.

Financials

Income Statement (Rs m)

Y/e Dec	CY21	CY22E	CY23E	CY24E
Net Revenues	69,340	84,219	1,00,094	1,17,183
YoY gr. (%)	19.1	21.5	18.8	17.1
Cost of Goods Sold	44,154	52,848	62,809	73,181
Gross Profit	25,187	31,372	37,285	44,002
Margin (%)	36.3	37.3	37.3	37.6
Employee Cost	5,882	6,527	7,257	8,496
Other Expenses	5,865	7,184	9,008	10,547
EBITDA	5,567	8,018	10,009	12,175
YoY gr. (%)	101.8	44.0	24.8	21.6
Margin (%)	8.0	9.5	10.0	10.4
Depreciation and Amortization	1,027	1,110	1,242	1,417
EBIT	4,540	6,907	8,767	10,758
Margin (%)	6.5	8.2	8.8	9.2
Net Interest	107	118	140	164
Other Income	1,596	1,836	2,222	2,578
Profit Before Tax	7,243	8,626	10,849	13,172
Margin (%)	10.4	10.2	10.8	11.2
Total Tax	1,918	2,174	2,734	3,319
Effective tax rate (%)	26.5	25.2	25.2	25.2
Profit after tax	5,325	6,452	8,115	9,853
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,433	6,452	8,115	9,853
YoY gr. (%)	138.4	45.5	25.8	21.4
Margin (%)	6.4	7.7	8.1	8.4
Extra Ord. Income / (Exp)	892	-	-	-
Reported PAT	5,325	6,452	8,115	9,853
YoY gr. (%)	131.1	21.2	25.8	21.4
Margin (%)	7.7	7.7	8.1	8.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,325	6,452	8,115	9,853
Equity Shares O/s (m)	212	212	212	212
EPS (Rs)	20.9	30.4	38.3	46.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Dec	CY21	CY22E	CY23E	CY24E
Non-Current Assets				
Gross Block	11,724	13,724	15,924	18,524
Tangibles	11,724	13,724	15,924	18,524
Intangibles	-	-	-	-
Acc: Dep / Amortization	3,741	4,851	6,093	7,510
Tangibles	3,741	4,851	6,093	7,510
Intangibles	-	-	-	-
Net fixed assets	7,983	8,873	9,831	11,014
Tangibles	7,983	8,873	9,831	11,014
Intangibles	-	-	-	-
Capital Work In Progress	956	956	956	956
Goodwill	-	-	-	-
Non-Current Investments	87	254	322	424
Net Deferred tax assets	939	939	939	939
Other Non-Current Assets	4,410	6,106	9,008	10,547
Current Assets				
Investments	-	-	-	-
Inventories	10,091	11,537	12,615	14,768
Trade receivables	18,838	22,382	26,052	30,179
Cash & Bank Balance	26,877	28,459	29,440	31,897
Other Current Assets	3,672	5,895	7,007	8,203
Total Assets	79,789	92,126	1,04,539	1,19,003
Equity				
Equity Share Capital	424	424	424	424
Other Equity	40,028	44,544	50,225	57,122
Total Networkth	40,452	44,968	50,649	57,546
Non-Current Liabilities				
Long Term borrowings	185	185	185	185
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	181	181	181	181
Trade payables	19,613	23,074	27,423	32,105
Other current liabilities	20,296	24,656	27,039	29,924
Total Equity & Liabilities	79,789	92,126	1,04,539	1,19,003

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Dec	CY21	CY22E	CY23E	CY24E
PBT	7,072	8,626	10,849	13,172
Add. Depreciation	1,027	1,110	1,242	1,417
Add. Interest	107	118	140	164
Less Financial Other Income	1,596	1,836	2,222	2,578
Add. Other	(1,598)	-	-	-
Op. profit before WC changes	6,608	9,854	12,231	14,753
Net Changes-WC	1,015	(2,043)	(3,742)	(3,257)
Direct tax	(1,131)	(2,174)	(2,734)	(3,319)
Net cash from Op. activities	6,492	5,637	5,756	8,177
Capital expenditures	(913)	(2,000)	(2,200)	(2,600)
Interest / Dividend Income	503	-	-	-
Others	(19,669)	(2)	0	0
Net Cash from Inv. activities	(20,079)	(2,002)	(2,200)	(2,600)
Issue of share cap. / premium	-	-	-	-
Debt changes	(102)	-	-	-
Dividend paid	(1,060)	(1,936)	(2,435)	(2,956)
Interest paid	(107)	(118)	(140)	(164)
Others	-	-	-	-
Net cash from Fin. activities	(1,268)	(2,053)	(2,575)	(3,120)
Net change in cash	(14,855)	1,582	981	2,457
Free Cash Flow	4,770	3,637	3,556	5,577

Source: Company Data, PL Research

Key Financial Metrics

Y/e Dec	CY21	CY22E	CY23E	CY24E
Per Share(Rs)				
EPS	20.9	30.4	38.3	46.5
CEPS	25.8	35.7	44.2	53.2
BVPS	190.9	212.2	239.0	271.6
FCF	22.5	17.2	16.8	26.3
DPS	5.2	9.1	11.5	13.9
Return Ratio(%)				
RoCE	11.7	16.0	18.2	19.8
ROIC	28.2	35.3	35.0	35.7
RoE	11.6	15.1	17.0	18.2
Balance Sheet				
Net Debt : Equity (x)	(0.7)	(0.6)	(0.6)	(0.5)
Net Working Capital (Days)	49	47	41	40
Valuation(x)				
PER	133.8	91.9	73.1	60.2
P/B	14.7	13.2	11.7	10.3
P/CEPS	108.6	78.4	63.4	52.6
EV/EBITDA	101.8	70.5	56.3	46.1
EV/Sales	8.2	6.7	5.6	4.8
Dividend Yield (%)	0.2	0.3	0.4	0.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Dec	Q3CY21	Q4CY21	Q1CY22	Q2CY22
Net Revenue	17,784	21,015	19,684	20,525
YoY gr. (%)	10.3	23.6	20.8	44.0
Raw Material Expenses	11,037	13,621	12,429	12,529
Gross Profit	6,747	7,394	7,255	7,996
Margin (%)	37.9	35.2	36.9	39.0
EBITDA	1,689	1,852	1,879	1,988
YoY gr. (%)	39.2	117.1	81.5	109.8
Margin (%)	9.5	8.8	9.5	9.7
Depreciation / Depletion	263	227	257	253
EBIT	1,426	1,625	1,622	1,734
Margin (%)	8.0	7.7	8.2	8.4
Net Interest	20	39	15	28
Other Income	248	599	373	253
Profit before Tax	1,654	2,653	4,913	1,959
Margin (%)	9.3	12.6	25.0	9.5
Total Tax	454	717	1,212	489
Effective tax rate (%)	27.5	27.0	24.7	24.9
Profit after Tax	1,200	1,936	3,701	1,471
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,200	1,594	1,491	1,471
YoY gr. (%)	40.3	156.3	56.2	115.3
Margin (%)	6.7	7.6	7.6	7.2
Extra Ord. Income / (Exp)	-	342	2,210	-
Reported PAT	1,200	1,936	3,701	1,471
YoY gr. (%)	40.3	211.2	145.7	115.3
Margin (%)	6.7	9.2	18.8	7.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,200	1,936	3,701	1,471
Avg. Shares O/s (m)	212	212	212	212
EPS (Rs)	5.7	7.5	7.0	6.9

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jul-22	Hold	2,293	2,362
2	06-May-22	Hold	2,293	2,221
3	08-Apr-22	Hold	2,209	2,192
4	11-Feb-22	Hold	2,209	2,179
5	11-Jan-22	UR	-	2,288
6	28-Oct-21	Hold	1,832	1,875
7	05-Oct-21	UR	-	1,878

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Hold	2,293	2,362
2	Apar Industries	Accumulate	1,194	1,124
3	Bharat Electronics	BUY	295	269
4	BHEL	Sell	36	46
5	Cummins India	Accumulate	1,087	1,052
6	Engineers India	BUY	89	60
7	GE T&D India	Hold	102	101
8	Kalpataru Power Transmission	BUY	442	373
9	KEC International	Accumulate	473	444
10	Larsen & Toubro	BUY	2,030	1,751
11	Siemens	Accumulate	2,815	2,615
12	Thermax	Accumulate	2,190	2,019
13	Triveni Turbine	BUY	240	192
14	Voltamp Transformers	UR	-	2,972

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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