

## Positive performance continues...

**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

**Q3CY22 Results:** ABB reported a strong performance in Q3CY22\*.

- Revenue at ₹ 2119.7 crore, grew 19.2% YoY, owing to better execution and value added volume mix
- EBITDA came in at ₹ 211 crore with margins of 10%. Margin growth was supported by quality execution
- Hence, PAT came in at ₹ 167.7 crore, up 40.7% YoY
- Order inflows for Q3CY22 came in strong at ~₹ 2634 crore, up 38% 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 ₹ 3635 (70x on CY24E 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 a recovery in certain segments and industries like data centre, 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 ~19.6%, 29%, respectively, in CY21-24E 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 a target price of ₹ 3040



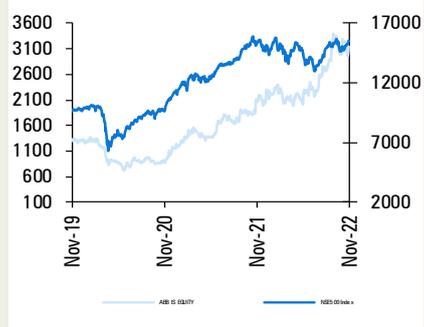
### Particulars

Particular	Amount
Market Capitalization	₹ 64653 Crore
Total Debt (CY21)	₹ 5.2 Crore
Cash and Inv. (CY21)	₹ 2657.7 crore
EV (CY21)	₹ 62000.8 Crore
52 week H/L (₹)	3446 / 1945
Equity capital	₹ 42.4 Crore
Face value	₹ 2

### Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	75.0	75.0	75.0	75.0
FII	3.8	3.7	3.5	5.4
DII	8.0	8.2	8.6	11.9
Others	13.2	13.1	12.9	7.7

### 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)	CY20	CY21	CY22E	CY23E	CY24E	CY21-CY24E
Revenues	5,821	7,088	8,757	10,225	12,135	19.6
EBITDA	276	626	842	1,063	1,342	29.0
Adj Net Profit	175	449	604	789	1,099.9	34.8
EPS (₹)	10.3	25.5	40.5	37.2	51.9	
P/E (x)	373.6	145.4	108.0	82.7	59.3	
Price / Book (x)	18.1	16.3	14.0	12.5	10.8	
EV/EBITDA (x)	228.6	100.1	74.0	58.3	45.7	
RoCE (%)	18.6	45.0	49.2	57.3	67.5	
RoE (%)	4.8	11.2	12.9	15.1	18.1	

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

## Key takeaways of recent quarter & conference call highlights

### Q3CY22 Results: Positive performance continues...

- ABB reported revenue at ₹ 2119.7 crore (vs. our estimate of ₹ 2189.3 crore), up 19.2% YoY on strong order execution. Robotics & motion segment grew 23% on a YoY basis to ₹ 939.8 crore. Electrification segment grew 27.1% YoY to ₹ 881 crore while industrial automation segment revenue grew 3% YoY to ₹ 350 crore. Robotics & motion, electrification, industrial automation segments contributed ~44%, ~42%, 17%, respectively
- EBITDA came in at ₹ 211 crore (vs. our estimate of ₹ 216.7 crore) with EBITDA margin of 10% (our estimate was 9.9%) (vs. 9.5% in Q3CY21) while gross margins were flat at 37.9% YoY. Robotics & motion reported EBIT margin of 10.7% (vs. 11% in Q3CY21), Electrification EBIT margin was at 14.5% (vs. 12% in Q3CY21) while industrial automation EBIT margin was at 10% vs. 12.4% YoY
- Adjusted PAT came in at ₹ 168.7 crore (vs. our estimate of ₹ 159.7 crore), up 40.7% YoY aided by other income. Also, there was a one-time extraordinary gain (₹ 46 crore) on the final divestment of the turbo charger business
- Order inflows came in pretty strong at ₹ 2634 crore, up 38% YoY, registering decent growth in all business segments. Process automation was the spearhead, with wins from large conglomerates in steel, cement, gas, resulting in 96% YoY growth in orders. Electrification business area was up 36% compared to Q3CY21 due to strong customer connect leading to good order inflows across all channels, divisions and segments. Motion business area orders, up 20% YoY were also supported by good contribution from channel business, exports and package orders for motors and drives. Robotics and discrete automation clocked higher paint orders. However, overall orders de-grew 18%. The order backlog as of Q3CY22 was at ₹ 6519 crore, up 37%, YoY

### Q3CY22 Earnings Conference Call highlights

- Strong execution was driving topline and aiding profitability. Order inflows came in pretty strong at ₹ 2634 crore from a mix of sectors. It grew 38% YoY with an order backlog of ₹ 6519 crore, up 37% YoY, which provides adequate forward visibility for the company. Operational EBITDA margin was strong at 10% with cash reserves remaining robust at ~₹ 3,200 crore. ABB has been recognised by IGBC as a pioneer in the Green Building Area. Crisil rated ABB as a strong ESG company
- **Data Centre** – ABB sees a growth rate of ~22% in 2022 for this segment while it is ~\$1 billion plus opportunity. These data centres spread in a few cities. It is also following the trend like in the APAC region as well as other countries. US is a front-runner followed by the UK, Germany and China. India will continue to see growth in this area. ABB offering include UPS, MV and LV switchgear, LV components, automation and instrumentation, motors, drivers and digital powertrain. Some expansion in hyper scale data centres was due to global players coming into India. This activity is being seen in Mumbai, Bangalore, Hyderabad and Chennai. Also, the 5G, local storage of data, Digital India Data Protection Bill, development of Tier II & III cities and cloud adoption will drive this particular segment, going forward. It is at an early stage of development
- **Electrification:** Electrification has continued its growth trend. This is the consistent third quarter where order intake is more than ₹ 900 crore, which grew 36% YoY. The company's focus is more on Tier II & III cities and deeper customer engagement. With the order backlog of ₹ 1630 crore growing 18% YoY, this gives good visibility for revenues with better price realisation and improving profitability

- **Motion:** Strong revenue growth in the large motor business was due to export market allocation. The company's high focus is on customer engagement, segment focus and penetration to Tier II & III cities. Exports, package orders from motors and drives contributed to growth in order inflows. The company received high value orders from Railways. ABB witnessed an impact of forex, commodities in motion business this quarter
- **Process industries:** ABB saw a significant uptick in order booking across channels with large wins from steel, cement, oil & gas majors of ₹ 706 crore with strong order backlogs of ₹ 2547 crore. Export orders also grew at a robust pace. There was milestone based execution for project orders. In Q3CY21, turbocharger business was there, which is not there now. Process industries business has actually turned around more solidly than before, both in terms of market presence as well as profitability
- **Robotics & discrete automation:** This is a fast-growing business for ABB but at this point of time certain headwinds in terms of execution are more from the supply chain disruptions. There was higher contribution from service revenues in the robotics segment. Automotive segment is showing signs of investments. Electronics market is looking to gain momentum in this segment. Also, there were higher paint related orders in Q3CY21, which are not there now
- **Business outlook:** Orders comprise identified high focus growth segments viz. data centre, electronics, warehouse & logistics. automotive, F&B, pharma & healthcare, railways & metros, renewables, water, etc. This will provide moderate growth. Power distribution, rubber & plastics, buildings & infra, cement, oil & gas, metals & mining, marine & ports, pulp & paper, textile will provide moderate-low growth to the company

Exhibit 1: Variance analysis

	Q3CY22	Q3CY21	YoY (%)	Q2CY22	QoQ (%)	Comments
Revenue	2,119.7	1,778.4	19.2	2,052.5	3.3	Better execution and value added volume mix helped for revenue growth
Other Income	46.9	24.8	89.0	25.3	85.1	
Total Revenue	2,166.6	1,803.2	20.2	2,077.8	4.3	
Raw material cost	1,210.4	973.6	24.3	1,110.7	9.0	
Purchase of traded goods	162.7	163.8	-0.7	173.5	-6.3	
Changes in inventory	-56.0	-33.6		-31.3		
Sub-contract & direct exp	64.8	61.7	5.1	56.7	14.4	
Employee Expenses	156.1	144.1	8.4	145.7	7.1	
Other expenses	370.8	300.0	23.6	398.5	-6.9	
Operating Profit (EBITDA)	211.0	168.9	24.9	198.8	6.1	
EBITDA Margins	10.0%	9.5%	45 bps	9.7%	27 bps	Margin growth supported by quality execution.
Interest	1.6	2.0	-23.2	2.8	-44.9	
Depreciation	26.9	26.3	2.2	25.3	6.0	
Total Tax	72.8	45.4	60.3	48.9	49.0	
Extraordinary items	-4.9	-0.1		-6.8		
PAT	202.5	119.9	68.8	147.1	37.7	

Segment-wise	Q3CY22	Q3CY21	YoY (%)	Q2CY22	QoQ (%)	
<b>Revenue</b>						
Robotics and Motion	939.8	764.1	23.0	882.0	6.6	
Electrification Products	881	693.3	27.1	838	5.1	
Industrial Automation	350	339.6	3.0	370	-5.6	
Total	2119.7	1778.4	19.2	2052.5	3.3	
<b>EBIT Margin</b>						
Robotics and Motion	10.7%	11.0%		9.1%		
Electrification Products	14.5%	12.0%		11.5%		
Industrial Automation	10.0%	12.4%		10.8%		

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

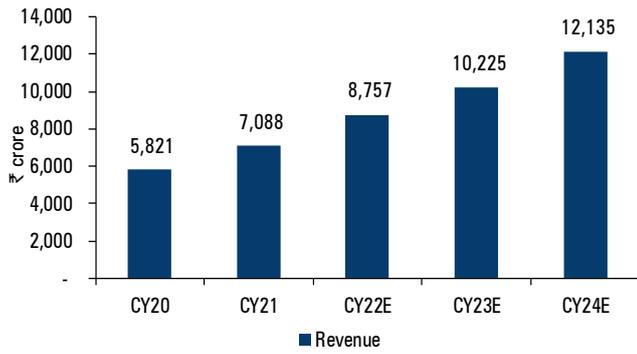
Exhibit 2: Change in estimates

(₹ Crore)	CY21	CY22E	CY23E			CY24E		
	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	7,197.6	8,757.2	11,104.2	10,224.7	-7.9	-	12,135.2	-
EBITDA	625.5	842.1	1,257.2	1,062.7	-15.5	-	1,342.4	-
EBITDA Margin (%)	8.8%	9.6%	11.3%	10.4%	-8.0	-	11.1%	-
PAT	539.7	604.4	925.7	788.9	-14.8	-	1,099.9	-
EPS (₹)	25.5	40.5	43.7	37.2	-14.8	-	51.9	-

Source: Company, ICICI Direct Research

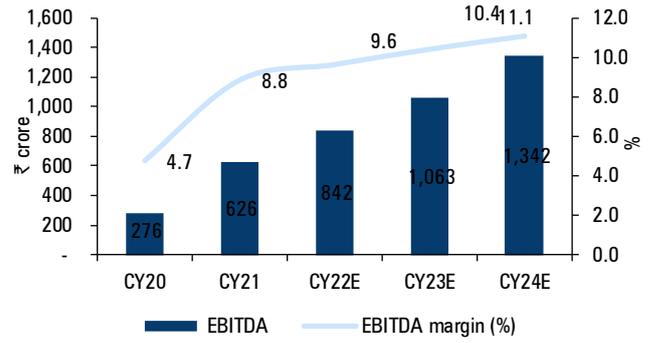
Financial story in charts:

Exhibit 3: Revenue trend...



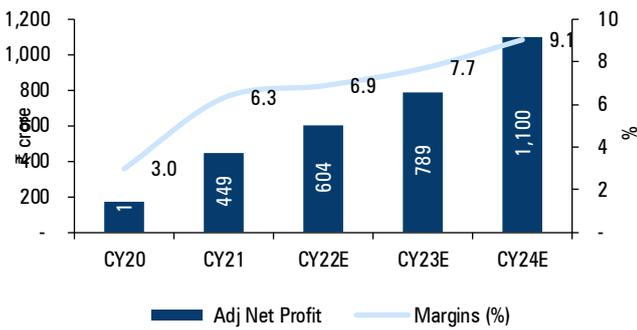
Source: ICICI Direct Research, Company

Exhibit 4: EBITDA and EBITDA margin trend



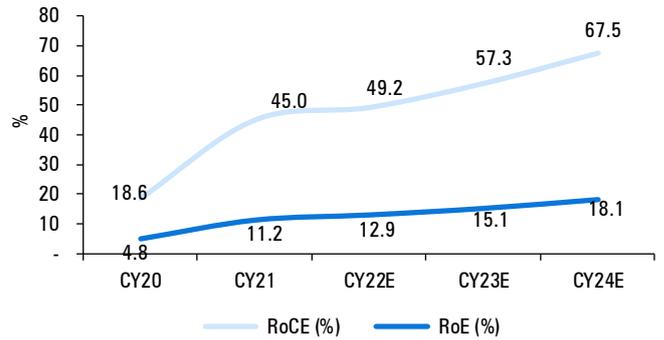
Source: ICICI Direct Research, Company

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)	CY21	CY22E	CY23E	CY24E
Net Sales	7,003	8,667	10,127	12,037
Operating income	85	90	98	98
Revenue	7,088	8,757	10,225	12,135
% Growth	(12.9)	23.6	16.8	18.7
Other income	110.0	120.0	150.0	150.0
Total	7,185	8,901	10,391	12,285
% Growth	(11.9)	23.9	16.7	18.2
Total Raw Material Costs	4,461	5,504	6,380	7,487
Employee Expenses	595	680	770	915
other expenses	1,197	1,465	1,701	2,022
Total Operating Expenditure	6,462	7,915	9,162	10,793
<b>Operating Profit (EBITDA)</b>	<b>626</b>	<b>842</b>	<b>1,063</b>	<b>1,342</b>
% Growth	(12.2)	34.6	26.2	26.3
Interest	15	21	22	22
PBDT	721	941	1,191	1,470
Depreciation	120	133	136	-
PBT before Exceptional Items	600	808	1,055	1,470
Total Tax	182	289	266	371
PAT before MI	540	858	789	1,100
Minority Interest	-	-	-	-
<b>PAT</b>	<b>540</b>	<b>858</b>	<b>789</b>	<b>1,100</b>
% Growth	80.0	59.0	(8.1)	39.4
<b>EPS</b>	<b>25.5</b>	<b>40.5</b>	<b>37.2</b>	<b>51.9</b>

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

Exhibit 8: Cash flow statement				
	₹ crore			
(₹ Crore)	CY20	CY22E	CY23E	CY24E
Profit after Tax	219	858	789	1,100
Depreciation	120	133	136	-
Interest	17	21	22	22
Cash Flow before WC changes	356	1,012	947	1,122
Changes in inventory	21	(358)	(145)	(283)
Changes in debtors	253	(168)	(162)	(414)
Changes in loans & Advances	349	(2)	(3)	(5)
Changes in other current assets	152	(140)	(54)	(94)
Net Increase in Current Assets	924	(668)	(365)	(794)
Changes in creditors	(181)	414	146	471
Changes in provisions	4	(2)	20	66
Net Inc in Current Liabilities	22	367	209	638
<b>Net CF from Operating activities</b>	<b>1,302</b>	<b>711</b>	<b>791</b>	<b>966</b>
Changes in deferred tax assets	(7)	-	-	-
(Purchase)/Sale of Fixed Assets	(102)	(150)	(175)	(175)
Net CF from Investing activities	(538)	(150)	(175)	(175)
Dividend and Dividend Tax	(102)	(182)	(237)	(237)
Net CF from Financing Activities	(155)	(220)	(275)	(263)
<b>Net Cash flow</b>	<b>609</b>	<b>341</b>	<b>341</b>	<b>528</b>
Opening Cash/Cash Equivalent	1,597	2,658	2,999	3,340
Closing Cash/ Cash Equivalent	2,207	2,999	3,340	3,868

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(₹ Crore)	CY20	CY22E	CY23E	CY24E
Equity Capital	42.4	42.4	42.4	42.4
Reserve and Surplus	3,564	4,632	5,168	6,026
Total Shareholders funds	3,606	4,674	5,210	6,069
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>3,670</b>	<b>4,716</b>	<b>5,252</b>	<b>6,111</b>
Gross Block	1,024	1,282	1,457	1,632
Acc: Depreciation	315	482	618	618
Net Block	708	800	839	1,014
Capital WIP	75	65	65	65
Total Fixed Assets	783	865	904	1,079
Non Current Assets	724	589	589	589
Inventory	841	1,368	1,513	1,795
Debtors	1,695	2,051	2,213	2,627
Loans and Advances	18	21	24	29
Other Current Assets	436	447	501	595
Cash	2,207	2,999	3,340	3,868
Total Current Assets	6,084	7,614	8,320	9,642
Current Liabilities	1,721	2,375	2,521	2,992
Provisions	290	333	353	419
Net Current Assets	2,163	3,262	3,758	4,442
<b>Total Assets</b>	<b>3,670</b>	<b>4,716</b>	<b>5,252</b>	<b>6,111</b>

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
(Year-end March)	CY21	CY22E	CY23E	CY24E
<b>Per Share Data</b>				
EPS	25.5	40.5	37.2	51.9
Cash per Share	125.4	141.5	157.6	182.5
BV	189.5	220.6	245.9	286.4
Dividend per share	5.0	7.1	9.3	9.3
Dividend payout ratio	20%	18%	25%	18%
<b>Operating Ratios</b>				
EBITDA Margin	8.8	9.6	10.4	11.1
PAT Margin	7.6	9.8	7.7	9.1
<b>Return Ratios</b>				
RoE	11.2	12.9	15.1	18.1
RoCE	45.0	49.2	57.3	67.5
RoIC	92.1	85.1	86.6	89.3
<b>Valuation Ratios</b>				
EV / EBITDA	100.1	74.0	58.3	45.7
P/E	145.4	108.0	82.7	59.3
EV / Net Sales	8.8	7.1	6.1	5.1
Sales / Equity	1.8	1.9	2.0	2.0
Market Cap / Sales	9.2	7.5	6.4	5.4
Price to Book Value	16.3	14.0	12.5	10.8
<b>Turnover Ratios</b>				
Asset turnover	5.2	5.2	5.4	5.5
Debtors Turnover Ratio	4.0	4.5	4.8	5.0
Creditors Turnover Ratio	3.8	4.0	4.2	4.4
<b>Solvency Ratios</b>				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.9	1.0	1.1	1.1
Quick Ratio	0.6	0.7	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)	2,004	2,355	Buy	281201	56.8	66.1	76.7	35.3	30.3	26.1	8.9	9.3	11.6	12.1	12.9	13.6
Siemens Ltd	2,886	3,660	Buy	102776	29.5	36.7	50.5	97.9	78.6	57.1	13.9	15.7	19.2	10.1	11.6	14.2
AIA Engineering (AIAENG)	2,602	3,239	Buy	24542	64.6	89.8	92.5	40.3	29.0	28.1	16.5	19.9	17.9	13.2	15.8	14.3
Thermax (THERMA)	2,199	2,536	Hold	26203	36.5	51.7	61.0	60.2	42.5	36.0	14.6	18.3	18.7	11.4	14.3	14.4
KEC International (KECIN)	439	515	Buy	11276	12.9	15.4	30.3	34.0	28.4	14.5	11.9	13.8	20.5	10.6	10.7	17.9
Greaves Cotton (GREAVE)	153	209	Buy	3537	0.7	3.9	3.6	216.2	39.4	42.8	2.5	10.4	10.6	1.3	7.5	7.7
Elgi Equipment (ELGEQU)	494	520	Hold	15655	7.2	9.4	11.4	69.0	52.6	43.3	19.0	21.4	22.0	19.8	21.3	21.1
Bharat Electronics (BHAELE)	108	135	Buy	79238	3.2	3.8	4.5	33.9	28.5	24.1	26.1	28.4	30.0	19.5	21.2	22.4
Cochin Shipyard (COCSHI)	663	745	Buy	8718	42.9	38.6	42.8	15.4	17.2	15.5	10.9	10.5	10.6	12.7	11.0	11.3
SKF (SKFIND)	4,831	5,215	Buy	23883	77.0	108.7	130.3	62.7	44.4	37.1	26.0	30.7	31.3	20.6	23.3	23.4
Timken India (TIMIND)	2,920	3,561	Buy	21964	43.5	61.3	71.2	67.1	47.6	41.0	25.3	36.2	42.0	19.7	27.9	32.2
NRB Bearing (NRBBEA)	148	220	Buy	1437	7.8	9.2	12.1	19.0	16.1	12.3	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	324	365	Buy	3854	8.8	15.1	19.2	36.8	21.4	16.9	23.0	25.6	26.7	13.9	18.3	18.9
Data Patterns (DATPAT)	1361	1,555	Buy	7059	18.1	22.0	30.4	75.1	61.9	44.8	23.8	24.9	28.4	16.4	18.2	21.0
HAL (HINAER)	2,677	2,970	Buy	89516	151.9	132.7	145.0	17.6	20.2	18.5	27.4	30.5	30.1	26.3	23.1	22.8
ABB (ABB)	3,020	3,633	Buy	63996	25.5	40.5	37.2	118.6	74.6	81.1	45.0	49.2	57.3	11.2	12.9	15.1
Ador Welding (ADOWEL)	866	890	Buy	1178	33.2	37.5	49.3	26.1	23.1	17.6	19.9	23.8	26.8	13.6	17.1	19.3
Bharat Dynamics (BHADYN)	954	1,200	Buy	17485	27.3	33.0	42.7	35.0	28.9	22.4	24.6	24.7	27.9	17.3	17.7	20.0
Mazagon Dock (MAZDOC)	866	562	Buy	17466	30.3	31.2	40.1	28.6	27.8	21.6	20.0	18.1	20.9	16.1	14.6	16.6
Solar Industries India (SOLIN)	4,012	4,701	Buy	36305	48.8	76.6	99.7	82.3	52.4	40.2	22.5	32.5	34.6	23.9	29.0	28.8
Anup Engineering (THEANU)	924	1,085	Buy	915	62.7	49.5	72.3	14.7	18.7	12.8	15.3	16.6	19.4	12.2	12.5	14.5
Control Prints (CONTROLPR)	421	520	Buy	687	24.7	28.7	34.6	17.0	14.7	12.2	17.9	21.4	23.4	13.8	15.4	16.3
KSB Ltd. (KSBPUM)	1,981	2,180	Buy	6894	43.7	50.0	62.2	45.3	39.6	31.8	15.7	16.0	18.3	14.7	14.9	15.9

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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