

November 15, 2022

Q3CY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	CY23E	CY24E	CY23E	CY24E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	3,291		3,115	
Sales (Rs. m)	1,02,428	1,19,530	1,00,094	1,17,183
% Chng.	2.3	2.0		
EBITDA (Rs. m)	10,437	12,766	10,009	12,175
% Chng.	4.3	4.8		
EPS (Rs.)	39.8	49.1	38.3	46.5
% Chng.	3.9	5.6		

Key Financials - Standalone

Y/e Dec	CY21	CY22E	CY23E	CY24E
Sales (Rs. m)	69,340	85,518	1,02,428	1,19,530
EBITDA (Rs. m)	5,567	8,419	10,437	12,766
Margin (%)	8.0	9.8	10.2	10.7
PAT (Rs. m)	4,433	6,768	8,430	10,409
EPS (Rs.)	20.9	31.9	39.8	49.1
Gr. (%)	138.4	52.7	24.5	23.5
DPS (Rs.)	5.2	9.6	11.9	14.7
Yield (%)	0.2	0.3	0.4	0.5
RoE (%)	11.6	15.8	17.5	19.0
RoCE (%)	11.7	17.0	19.0	20.7
EV/Sales (x)	8.9	7.2	6.0	5.1
EV/EBITDA (x)	110.5	72.8	58.6	47.8
PE (x)	144.7	94.8	76.1	61.6
P/BV (x)	15.9	14.2	12.6	11.0

Key Data

ABB.BO | ABB IN

52-W High / Low	Rs.3,446 / Rs.1,945
Sensex / Nifty	61,873 / 18,403
Market Cap	Rs.642bn / \$ 7,911m
Shares Outstanding	212m
3M Avg. Daily Value	Rs.1278.36m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	5.39
Domestic Institution	11.91
Public & Others	7.70
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(5.2)	32.2	41.0
Relative	(11.3)	12.8	38.3

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Outlook continues to remain strong

Quick Pointers:

- Revenue growth (up 19.2% YoY) was driven by healthy opening order book, strong customer demand and better internal efficiency in execution.
- Order inflow reported a strong growth of ~38% YoY to Rs26.3bn, driven by growth in across channels, division and exports.

ABB India (ABB) reported strong quarterly performance with revenue growth of 19.2% YoY, owing to healthy order book execution, strong demand from high growth segments. EBITDA margins were healthy at 10%, owing to healthy execution, revenue mix and focus on cost optimization. Current capacity utilization stands at ~85-90%, focus will be on improving operational efficiencies and enhancing the utilization levels through improving factory optimization ensuring sufficient capacity to meet strong demand. Recently, ABB has inaugurated smart instrumentation factory for production of measurement and analytical devices, to meet increasing domestic demand. Order pipeline continues to remain strong in high growth sectors such as data center, railways & Metro, F&B, renewables etc. While, data center market opportunity stands strong, on back of 5G roll out, RBI's data localization norms, and cloud storage adoption. ABB's offerings in data center space includes UPS, MV & LV, Switchgear, LV components, Automation & Instrumentation, Motors, Drives, Digital Power Trains ensuring strong growth. Management targets PBT margins of ~10% going forward.

We remain positive on ABB in long run given its diversified business model with focus on high growth segments, healthy exports outlook and organic as well as inorganic growth. Given robust enquiry pipeline, penetration in Tier 3 & 4 markets driving volume growth across businesses and focus on operational efficiencies, we have revised our earnings estimates upwards by 4.9%/3.9%/5.6% for CY22/CY23/CY24. The stock is trading at PE of 94.8x/76.1x/61.6x CY22/23/24E. We maintain Accumulate rating on stock with revised TP of Rs3,291 (Rs3,115 earlier) valuing it at PE of 67x CY25E.

Healthy revenue growth: Sales came in at Rs21.2bn, up 19.2% YoY, (PL estimate ~Rs21.5bn), led by healthy opening order book and customer demand. Motion segment revenue grew 26% to Rs8.8bn, Electrification 27% to Rs8.8bn, Process Automation 3% to Rs3.5bn. While Robotics segment declined 9.8% YoY to Rs577mn, due to supply chain issues. EBITDA grew 24.9% YoY to Rs2.1bn, (PL estimate ~Rs2.2bn), with EBITDA margins expanding by 45bps YoY to 10%, led by operational efficiency and cost optimization. Adj. PAT grew 40.6% YoY to Rs1.7bn (PL estimate of Rs1.8bn), owing to higher other income (up 89% YoY to Rs469mn).

Short Cycle orders drive order inflows: Order inflows reported strong growth of ~38% YoY at Rs26.3bn, driven by growth across channels, divisions, segment and exports. Sectors such as steel, cements, paint, etc. continues to witness healthy traction. Order book stands at Rs65.2bn as on 3QCY22 (0.8x TTM revenue).

Exhibit 1: Healthy revenue and profitability growth

Y/e March (Rs mn)	Q3CY21	Q4CY21	Q1CY22	Q2CY22	Q3CY22	YoY gr. (%)	QoQ gr. (%)	9MCY22	9MCY21	YoY gr. (%)
Revenue	17,784	21,015	19,684	20,525	21,197	19.2	3.3	61,406	48,325	27.1
Total Revenues	17,784	21,015	19,684	20,525	21,197	19.2	3.3	61,406	48,325	27.1
Expenditure	16,095	19,163	17,805	18,538	19,088	18.6	3.0	55,430	44,653	24.1
<i>as % of sales</i>	<i>90.5</i>	<i>91.2</i>	<i>90.5</i>	<i>90.3</i>	<i>90.0</i>			<i>90.3</i>	<i>92.4</i>	
Consumption of RM	11,037	13,621	12,429	12,529	13,171	19.3	5.1	38,129	31,975	19.2
<i>as % of sales</i>	<i>62.1</i>	<i>64.8</i>	<i>63.1</i>	<i>61.0</i>	<i>62.1</i>			<i>62.1</i>	<i>66.2</i>	
Employee Cost	1,441	1,513	1,750	1,457	1,561	8.4	7.1	4,768	4,369	9.1
<i>as % of sales</i>	<i>8.1</i>	<i>7.2</i>	<i>8.9</i>	<i>7.1</i>	<i>7.4</i>			<i>7.8</i>	<i>9.0</i>	
Other expenditure	3,617	4,029	3,626	4,552	4,356	20.4	(4.3)	12,534	8,309	50.8
<i>as % of sales</i>	<i>20.3</i>	<i>19.2</i>	<i>18.4</i>	<i>22.2</i>	<i>20.6</i>			<i>20.4</i>	<i>17.2</i>	
EBITDA	1,689	1,852	1,879	1,988	2,110	24.9	6.1	5,976	3,672	62.7
Depreciation	263	227	257	253	269	2.1	6.0	779	800	(2.6)
EBIT	1,426	1,625	1,622	1,734	1,841	29.1	6.1	5,197	2,872	80.9
Other Income	248	599	373	253	469	89.0	85.1	1,095	1,040	5.3
Interest	20	39	15	28	16	(23.2)	(44.9)	59	68	(13.8)
Exceptional Item	-	(468)	(2,934)	-	(459)			(3,393)	(745)	
PBT	1,654	2,653	4,913	1,959	2,753	66.5	40.5	9,626	4,590	109.7
Total Tax	454	717	1,212	489	728	60.3	49.0	2,429	1,201	102.3
Reported PAT	1,200	1,936	3,701	1,471	2,025	68.8	37.7	7,197	3,389	112.4
Adjusted PAT	1,200	1,594	1,491	1,471	1,687	40.6	14.7	4,649	2,838	63.8
Adj. EPS	5.7	7.5	7.0	6.9	8.0	40.6	14.7	21.9	13.4	63.8
Margins (%)	Q3CY21	Q4CY21	Q1CY22	Q2CY22	Q3CY22	bps	bps	9MCY22	9MCY21	bps
EBITDA	9.5	8.8	9.5	9.7	10.0	45	27	9.7	7.6	213
EBIT	8.0	7.7	8.2	8.4	8.7	66	23	8.5	5.9	252
EBT	9.3	12.6	25.0	9.5	13.0	369	344	15.7	9.5	618
PAT	6.7	7.6	7.6	7.2	8.0	121	80	7.6	5.9	170
Effective Tax rate	27.5	27.0	24.7	24.9	26.4	(102)	151	25.2	26.2	(93)

Source: Company, PL

Exhibit 2: Segmental Performance

Y/e March (Rs mn)	Q3CY21	Q4CY21	Q1CY22	Q2CY22	Q3CY22	YoY gr. (%)	QoQ gr. (%)	9MCY22	9MCY21	YoY gr. (%)
Revenue										
Robotics & Discrete Automation	639	544	647	482	577	(9.8)	19.7	1,705	2,008	(15.1)
Motion	7,002	7,599	7,157	8,339	8,822	26.0	5.8	24,318	18,318	32.8
Electrification	6,933	8,493	8,610	8,378	8,809	27.1	5.1	25,797	19,029	35.6
Process Automation	3,396	4,708	3,421	3,704	3,499	3.0	(5.6)	10,624	9,326	13.9
Others	108	60	111	112	49	(55.0)	(56.7)	272	444	(38.9)
Less Intersegmental	(294)	(390)	(261)	(490)	(557)	89.9	13.8	(1,309)	(800)	63.6
Total	17,784	21,015	19,684	20,525	21,197	19.2	3.3	61,406	48,325	27.1
EBIT										
Robotics & Discrete Automation	76	28	57	61	73	(4.0)	20.1	191	175	9.3
EBIT margin (%)	11.9	5.2	8.8	12.6	12.6			11.2	8.7	
Motion	762	1,032	954	738	931	22.2	26.1	2,623	2,207	18.9
EBIT margin (%)	10.9	13.6	13.3	8.9	10.6			10.8	12.0	
Electrification	835	1,086	1,180	963	1,280	53.2	32.8	3,423	1,974	73.4
EBIT margin (%)	12.0	12.8	13.7	11.5	14.5			13.3	10.4	
Process Automation	422	411	354	402	350	(17.0)	(12.8)	1,106	868	27.5
EBIT margin (%)	12.4	8.7	10.4	10.8	10.0			10.4	9.3	

Source: Company, PL

Conference Call Highlights:

- Order inflow continues its growth momentum from base orders in traditional as well as emerging segments (Data center, renewables Food & beverages, etc)
- Opportunity from data centers stands strong on back of data localization, 5G roll out, RBI's data localization norms, Data protection and cloud storage adoption. sABB likely to gain from this opportunity.
- As on now company has not reverse any of its price hikes, due to continued supply chain issue and input cost inflations.
- Capacity utilization level stands ~85-90%, and will opt for increasing operational efficiencies and scaling up utilization level instead of new capex.
- New smart instrumentation factory will aim at meeting domestic demand, through this plant.
- Some products are imported from factory located in European region and has witnessed no major disruptions due to geopolitical tensions.
- **Electrification:** Order inflows growth (up 36% YoY to Rs9.6bn) was driven by strong customer connect, growth across channels, segments and exports. Margins expansion was driven by effective capacity utilization and better price realization.
- **Motion:** Order inflows came in healthy to Rs9.7bn (up 20% YoY growth) led by exports, package orders and drives. Revenues grew by 26% YoY owing to strong growth in large motor business. Margins were impacted (EBIT margins contracted by 32bps YoY), owing to revenue mix, forex impact and commodities
- **Process Automation:** Order inflow increased by 96% YoY to Rs7.1bn, aided by significant traction in steel, oil & gas, cement industries and robust exports growth for control & instrumentation solutions. Revenue grew by 3% YoY led by backlog execution across all verticals. Margins were impacted due to revenue mix and forex impact.
- **Robotics and discretionary automation:** order inflow came in Rs500mn, driven by service orders (for system upgrades), paint jobs etc. Revenue declined ~9% YoY, owing to supply chain headwinds. Automotive and electronics segments are showing signs of recovery.

Financials

Income Statement (Rs m)

Y/e Dec	CY21	CY22E	CY23E	CY24E
Net Revenues	69,340	85,518	1,02,428	1,19,530
YoY gr. (%)	19.1	23.3	19.8	16.7
Cost of Goods Sold	44,154	53,508	64,325	74,706
Gross Profit	25,187	32,009	38,103	44,824
Margin (%)	36.3	37.4	37.2	37.5
Employee Cost	5,882	6,628	7,221	8,248
Other Expenses	5,865	7,316	9,218	10,758
EBITDA	5,567	8,419	10,437	12,766
YoY gr. (%)	101.7	51.2	24.0	22.3
Margin (%)	8.0	9.8	10.2	10.7
Depreciation and Amortization	1,027	1,098	1,226	1,384
EBIT	4,540	7,321	9,211	11,382
Margin (%)	6.5	8.6	9.0	9.5
Net Interest	107	120	143	167
Other Income	1,596	1,847	2,202	2,701
Profit Before Tax	7,243	9,049	11,270	13,916
Margin (%)	10.4	10.6	11.0	11.6
Total Tax	1,918	2,280	2,840	3,507
Effective tax rate (%)	26.5	25.2	25.2	25.2
Profit after tax	5,325	6,768	8,430	10,409
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,433	6,768	8,430	10,409
YoY gr. (%)	138.4	52.7	24.5	23.5
Margin (%)	6.4	7.9	8.2	8.7
Extra Ord. Income / (Exp)	892	-	-	-
Reported PAT	5,325	6,768	8,430	10,409
YoY gr. (%)	131.1	27.1	24.5	23.5
Margin (%)	7.7	7.9	8.2	8.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,325	6,768	8,430	10,409
Equity Shares O/s (m)	212	212	212	212
EPS (Rs)	20.9	31.9	39.8	49.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Dec	CY21	CY22E	CY23E	CY24E
Non-Current Assets				
Gross Block	11,724	13,524	15,524	17,724
Tangibles	11,724	13,524	15,524	17,724
Intangibles	-	-	-	-
Acc: Dep / Amortization	3,741	4,838	6,065	7,448
Tangibles	3,741	4,838	6,065	7,448
Intangibles	-	-	-	-
Net fixed assets	7,983	8,685	9,459	10,275
Tangibles	7,983	8,685	9,459	10,275
Intangibles	-	-	-	-
Capital Work In Progress	956	956	956	956
Goodwill	-	-	-	-
Non-Current Investments	87	257	328	430
Net Deferred tax assets	939	939	939	939
Other Non-Current Assets	4,410	6,020	8,809	10,758
Current Assets				
Investments	-	-	-	-
Inventories	10,091	11,715	12,909	15,064
Trade receivables	18,838	22,727	26,659	30,783
Cash & Bank Balance	26,877	28,738	30,102	32,346
Other Current Assets	3,672	5,986	7,170	8,367
Total Assets	79,789	92,866	1,05,917	1,20,216
Equity				
Equity Share Capital	424	424	424	424
Other Equity	40,028	44,766	50,667	57,954
Total Networkth	40,452	45,190	51,091	58,377
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	23,429	28,062	32,748
Other current liabilities	20,296	24,819	27,336	29,662
Total Equity & Liabilities	79,789	92,866	1,05,917	1,20,216

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Dec	CY21	CY22E	CY23E	CY24E
PBT	7,072	9,049	11,270	13,916
Add. Depreciation	1,027	1,098	1,226	1,384
Add. Interest	107	120	143	167
Less Financial Other Income	1,596	1,847	2,202	2,701
Add. Other	(1,598)	-	-	-
Op. profit before WC changes	6,608	10,266	12,640	15,467
Net Changes-WC	1,015	(2,175)	(3,764)	(4,226)
Direct tax	(1,131)	(2,280)	(2,840)	(3,507)
Net cash from Op. activities	6,492	5,811	6,036	7,735
Capital expenditures	(913)	(1,800)	(2,000)	(2,200)
Interest / Dividend Income	503	-	-	-
Others	(19,669)	-	-	-
Net Cash from Invt. activities	(20,079)	(1,800)	(2,000)	(2,200)
Issue of share cap. / premium	-	-	-	-
Debt changes	(102)	-	-	-
Dividend paid	(1,060)	(2,031)	(2,529)	(3,123)
Interest paid	(107)	(120)	(143)	(167)
Others	-	-	-	-
Net cash from Fin. activities	(1,268)	(2,150)	(2,672)	(3,290)
Net change in cash	(14,855)	1,861	1,364	2,245
Free Cash Flow	4,770	4,011	4,036	5,535

Source: Company Data, PL Research

Key Financial Metrics

Y/e Dec	CY21	CY22E	CY23E	CY24E
Per Share(Rs)				
EPS	20.9	31.9	39.8	49.1
CEPS	25.8	37.1	45.6	55.7
BVPS	190.9	213.3	241.1	275.5
FCF	22.5	18.9	19.0	26.1
DPS	5.2	9.6	11.9	14.7
Return Ratio(%)				
RoCE	11.7	17.0	19.0	20.7
ROIC	28.2	37.9	37.4	37.4
RoE	11.6	15.8	17.5	19.0
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	144.7	94.8	76.1	61.6
P/B	15.9	14.2	12.6	11.0
P/CEPS	117.5	81.6	66.4	54.4
EV/EBITDA	110.5	72.8	58.6	47.8
EV/Sales	8.9	7.2	6.0	5.1
Dividend Yield (%)	0.2	0.3	0.4	0.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Dec	Q4CY21	Q1CY22	Q2CY22	Q3CY22
Net Revenue	21,015	19,684	20,525	21,197
YoY gr. (%)	23.6	20.8	44.0	19.2
Raw Material Expenses	13,621	12,429	12,529	13,171
Gross Profit	7,394	7,255	7,996	8,027
Margin (%)	35.2	36.9	39.0	37.9
EBITDA	1,852	1,879	1,988	2,110
YoY gr. (%)	117.1	81.5	109.8	24.9
Margin (%)	8.8	9.5	9.7	10.0
Depreciation / Depletion	227	257	253	269
EBIT	1,625	1,622	1,734	1,841
Margin (%)	7.7	8.2	8.4	8.7
Net Interest	39	15	28	16
Other Income	599	373	253	469
Profit before Tax	2,653	4,913	1,959	2,753
Margin (%)	12.6	25.0	9.5	13.0
Total Tax	717	1,212	489	728
Effective tax rate (%)	27.0	24.7	24.9	26.4
Profit after Tax	1,936	3,701	1,471	2,025
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,594	1,491	1,471	1,687
YoY gr. (%)	156.3	56.2	115.3	40.6
Margin (%)	7.6	7.6	7.2	8.0
Extra Ord. Income / (Exp)	342	2,210	-	338
Reported PAT	1,936	3,701	1,471	2,025
YoY gr. (%)	211.2	145.7	115.3	68.8
Margin (%)	9.2	18.8	7.2	9.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,936	3,701	1,471	2,025
Avg. Shares O/s (m)	212	212	212	212
EPS (Rs)	7.5	7.0	6.9	8.0

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Oct-22	Accumulate	3,115	3,100
2	11-Aug-22	Accumulate	3,115	2,799
3	05-Jul-22	Hold	2,293	2,362
4	06-May-22	Hold	2,293	2,221
5	08-Apr-22	Hold	2,209	2,192
6	11-Feb-22	Hold	2,209	2,179
7	11-Jan-22	UR	-	2,288

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	3,115	3,100
2	Apar Industries	BUY	1,834	1,464
3	Bharat Electronics	BUY	125	110
4	BHEL	Sell	36	62
5	Cummins India	Accumulate	1,514	1,335
6	Engineers India	BUY	89	65
7	GE T&D India	Hold	102	129
8	Kalpataru Power Transmission	Accumulate	549	504
9	KEC International	Accumulate	495	435
10	Larsen & Toubro	BUY	2,384	2,023
11	Praj Industries	BUY	520	434
12	Siemens	Accumulate	3,116	2,750
13	Thermax	Accumulate	2,556	2,276
14	Triveni Turbine	BUY	328	283
15	Voltamp Transformers	Hold	3,150	3,013

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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