

February 14, 2023

Q4CY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	CY23E	CY24E	CY23E	CY24E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	3,371		3,291	
Sales (Rs. m)	1,01,482	1,18,187	1,02,428	1,19,530
% Chng.	(0.9)	(1.1)		
EBITDA (Rs. m)	10,950	13,284	10,437	12,766
% Chng.	4.9	4.1		
EPS (Rs.)	41.6	50.3	39.8	49.1
% Chng.	4.5	2.4		

Key Financials - Standalone

Y/e Dec	CY21	CY22	CY23E	CY24E
Sales (Rs. m)	69,340	85,675	1,01,482	1,18,187
EBITDA (Rs. m)	5,567	9,619	10,950	13,284
Margin (%)	8.0	11.2	10.8	11.2
PAT (Rs. m)	4,433	7,703	8,810	10,661
EPS (Rs.)	20.9	36.4	41.6	50.3
Gr. (%)	138.4	73.8	14.4	21.0
DPS (Rs.)	5.2	5.5	12.5	15.1
Yield (%)	0.2	0.2	0.4	0.5
RoE (%)	11.6	17.1	16.8	18.0
RoCE (%)	11.7	18.9	18.4	19.8
EV/Sales (x)	9.1	7.2	6.1	5.2
EV/EBITDA (x)	112.8	64.3	56.3	46.3
PE (x)	147.6	84.9	74.3	61.4
P/BV (x)	16.2	13.2	11.8	10.4

Key Data

ABB.BO | ABB IN

52-W High / Low	Rs.3,446 / Rs.1,945
Sensex / Nifty	60,432 / 17,771
Market Cap	Rs.654bn/ \$ 7,910m
Shares Outstanding	212m
3M Avg. Daily Value	Rs.1208.88m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	7.55
Domestic Institution	9.73
Public & Others	7.72
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	6.5	10.4	41.7
Relative	6.2	8.6	36.4

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Robust performance; strong outlook intact

Quick Pointers:

- Order pipeline continues to remain strong in high growth sectors such as data center, railways & Metro, F&B, renewables etc.
- Allocated Rs20bn for acquisitions, which can bring add-on value to portfolio.

We revise our CY23/24E estimates by 4.5%/2.4%, considering healthy enquiry pipeline along with management focus on operational efficiencies, capacity enhancement and inorganic growth opportunities. ABB India (ABB) reported strong quarterly performance with revenue up 15.5% YoY and EBITDA margin expanding by 620bps YoY (driven by revenue mix, volume growth and supply chain management). Base order continued its momentum with 21% YoY growth to Rs23.4bn with Tier 3/4 cities gaining traction from increased contribution (48% in Q4CY22 v/s 43% earlier), owing to expanding channel partners base and increased awareness among OEMs. Off the total cash balance of Rs36bn, ~Rs20bn is envisaged towards inorganic expansion.

We remain positive on ABB in long run given its 1) diversified business model focusing on high growth segments, 2) strong inquiry pipeline, 3) healthy exports outlook and 4) organic/inorganic growth. We maintain 'Accumulate' rating on stock with revised TP of Rs3,371 (Rs3,291 earlier) valuing it at PE of 67x CY24E.

Revenue growth of 15.5% driven by all segment: Sales grew 15.5% YoY to Rs24.3bn (PL estimate of ~Rs24.1bn), led by execution of large value orders and better penetration in Tier-1 and Tier-2 cities. Motion segment revenue grew 23.1% YoY to Rs9.4bn; Electrification grew 11.9% YoY to Rs9.5bn; Process Automation grew 8.5% YoY to Rs5.1bn and Robotics grew 15.4% YoY to Rs628mn. EBITDA rose 96.7% YoY to Rs3.6bn (PL estimate of ~Rs2.4bn) with EBITDA margins expanding significantly by 620bps YoY to 15.0%, led by better product mix, higher capacity utilization, operational efficiencies and cost optimization. Adj. PAT grew ~92% YoY to Rs3.1bn (PL estimate of Rs2.1bn), partially aided by lower effective tax rate (23.6% Vs. 27.0% in Q4CY21).

Short cycle order drives order inflow growth of 4.1% YoY: Order inflows grew 4.1% YoY to Rs23.4bn from sectors such as paints, auto, metals, renewable, data centers, food & beverages, steel etc. Q4CY21 had large order worth Rs3.1bn. CY22 order inflow came in at Rs100bn up 31% YoY. Order book stands at Rs64.7bn as on Q4CY22 (0.8x TTM revenue) up 32% YoY. During the quarter key orders bagged include 1) Distributed control system for paint company 2) LV MV and power distribution unit for one of the largest Data Centers and 3) Tool design, simulation for ABB Robotics for passenger E-vehicle.

Exhibit 1: Revenue growth of 15.5% was driven by all segment

Y/e Dec (Rs mn)	Q4CY21	Q1CY22	Q2CY22	Q3CY22	Q4CY22	YoY gr. (%)	QoQ gr. (%)	CY22	CY21	YoY gr. (%)
Revenue	21,015	19,684	20,525	21,197	24,269	15.5	14.5	85,675	69,340	23.6
Total Revenues	21,015	19,684	20,525	21,197	24,269	15.5	14.5	85,675	69,340	23.6
Expenditure	19,163	17,805	18,538	19,088	20,626	7.6	8.1	76,057	63,773	19.3
<i>as % of sales</i>	<i>91.2</i>	<i>90.5</i>	<i>90.3</i>	<i>90.0</i>	<i>85.0</i>			<i>88.8</i>	<i>92.0</i>	
Consumption of RM	13,621	12,429	12,529	13,171	14,883	9.3	13.0	53,012	44,154	20.1
<i>as % of sales</i>	<i>64.8</i>	<i>63.1</i>	<i>61.0</i>	<i>62.1</i>	<i>61.3</i>			<i>61.9</i>	<i>63.7</i>	
Employee Cost	1,513	1,750	1,457	1,561	1,585	4.7	1.6	6,353	5,882	8.0
<i>as % of sales</i>	<i>7.2</i>	<i>8.9</i>	<i>7.1</i>	<i>7.4</i>	<i>6.5</i>			<i>7.4</i>	<i>8.5</i>	
Other expenditure	4,029	3,626	4,552	4,356	4,158	3.2	(4.6)	16,692	13,737	21.5
<i>as % of sales</i>	<i>19.2</i>	<i>18.4</i>	<i>22.2</i>	<i>20.6</i>	<i>17.1</i>			<i>19.5</i>	<i>19.8</i>	
EBITDA	1,852	1,879	1,988	2,110	3,643	96.7	72.7	9,619	5,567	72.8
Depreciation	227	257	253	269	268	18.0	(0.2)	1,047	1,027	1.9
EBIT	1,625	1,622	1,734	1,841	3,375	107.7	83.3	8,572	4,540	88.8
Other Income	599	373	253	469	700	16.8	49.3	1,795	1,596	12.4
Interest	39	15	28	16	72	86.1	364.1	131	107	22.5
Exceptional Item	(468)	(2,934)	-	(459)	-			(3,393)	(1,213)	
PBT	2,653	4,913	1,959	2,753	4,003	50.9	45.4	13,628	7,243	88.2
Total Tax	717	1,212	489	728	943	31.5	29.5	3,372	1,918	75.8
Reported PAT	1,936	3,701	1,471	2,025	3,059	58.0	51.1	10,256	5,325	92.6
Adjusted PAT	1,594	1,491	1,471	1,687	3,059	91.9	81.3	7,703	4,433	73.8
Adj. EPS	7.5	7.0	6.9	8.0	14.4	91.9	81.3	36.4	20.9	73.8
Margins (%)	Q4CY21	Q1CY22	Q2CY22	Q3CY22	Q4CY22	bps	bps	CY22	CY21	bps
EBIDTA	8.8	9.5	9.7	10.0	15.0	620	506	11.2	8.0	320
EBIT	7.7	8.2	8.4	8.7	13.9	618	522	10.0	6.5	346
EBT	12.6	25.0	9.5	13.0	16.5	387	350	15.9	10.4	546
PAT	7.6	7.6	7.2	8.0	12.6	502	465	9.0	6.4	260
Effective Tax rate	27.0	24.7	24.9	26.4	23.6	(347)	(288)	24.7	26.5	(174)

Source: Company, PL

Exhibit 2: Growth across segment drives revenue

Segmental Performance	Q4CY21	Q1CY22	Q2CY22	Q3CY22	Q4CY22	YoY gr. (%)	QoQ gr. (%)	CY22	CY21	YoY gr. (%)
Revenue										
Robotics & Discrete Automation	544	647	482	577	628	15.4	9.0	2,333	2,553	(8.6)
Motion	7,599	7,157	8,339	8,822	9,353	23.1	6.0	33,671	25,917	29.9
Electrification	8,493	8,610	8,378	8,809	9,500	11.9	7.8	35,297	27,522	28.2
Process Automation	4,708	3,421	3,704	3,499	5,108	8.5	46.0	15,732	14,034	12.1
Others	60	111	112	49	19	(69.4)	(61.9)	290	505	(42.5)
Less Intersegmental	(390)	(261)	(490)	(557)	(339)	(13.2)	(39.3)	(1,647)	(1,190)	38.4
Total	21,015	19,684	20,525	21,197	24,269	15.5	14.5	85,675	69,340	23.6
EBIT										
Robotics & Discrete Automation	28	57	61	73	102	263.7	40.2	293	203	44.6
<i>EBIT margin (%)</i>	<i>5.2</i>	<i>8.8</i>	<i>12.6</i>	<i>12.6</i>	<i>16.3</i>			<i>12.6</i>	<i>7.9</i>	
Motion	1,032	954	738	931	1,502	45.5	61.2	4,125	3,239	27.3
<i>EBIT margin (%)</i>	<i>13.6</i>	<i>13.3</i>	<i>8.9</i>	<i>10.6</i>	<i>16.1</i>			<i>12.3</i>	<i>12.5</i>	
Electrification	1,086	1,180	963	1,280	1,455	34.0	13.7	4,878	3,060	59.4
<i>EBIT margin (%)</i>	<i>12.8</i>	<i>13.7</i>	<i>11.5</i>	<i>14.5</i>	<i>15.3</i>			<i>13.8</i>	<i>11.1</i>	
Process Automation	411	354	402	350	900	118.9	157.1	2,007	1,279	56.9
<i>EBIT margin (%)</i>	<i>8.7</i>	<i>10.4</i>	<i>10.8</i>	<i>10.0</i>	<i>17.6</i>			<i>12.8</i>	<i>9.1</i>	

Source: Company, PL

Conference Call Highlights

- **Order inflow growth was driven by base orders.** Base order inflows grew 21% YoY, while total order inflows up 4% YoY due to large orders booked in Q4CY21.
- **Tier 3/4 cities are gaining traction** for electrification, motion and process automation segment. Order intake contribution has increased from 43% to 48% currently, led by expanding channel partner and increasing awareness among OEM's.
- Looking for capacity expansion to meet domestic as well as export demand.
- **EBITDA margin improvement (up ~510bps YoY)** was led by revenue mix, volume growth and supply chain management.
- **Cash balance stood at ~Rs36bn** out of which ~Rs20bn will be used towards inorganic expansion.
- **During the quarter key orders bagged include** 1) Distributed control system for paint company 2) LV MV and power distribution unit for one of the largest Data Centers and 3) Tool design, simulation for ABB Robotics for passenger E-vehicle.
- **Electrification - Order inflows growth (up 13% YoY – Rs8.6bn)** was driven by large orders in industrial solutions and order win in high growth segment. Order book stands at Rs15.8bn up 20% YoY. Healthy execution led to 12% YoY revenue growth. Product mix, better price realization and volume growth led to higher margins.
- **Motion - Order inflows grew 9% YoY to Rs7.7bn** led by traction converters, large motors and high value order wins from Railways. Few orders have been deferred to next. Order book stands at Rs21bn. Revenues grew by 23% YoY owing to strong growth in large motor business, traction converters business and focus on customer engagement. Margins improved on the back of better realization, volumes and strong execution in product and services.
- **Process Automation - Order inflow declined by 19% YoY** however there were large order wins for control systems, rectifiers, instrumentation and high value orders from paint, steel, energy companies. Revenue grew by 8% YoY led by backlog execution across all verticals and milestone based execution for project orders. Margins improved due to higher revenue share from service segment.
- **Robotics and discretionary automation - Order inflows grew by 213% YoY** to Rs1.2bn led by significant uptick in automotive and service orders. Revenue grew by 15% YoY, led by higher contribution from service revenue. Margins improved due to better margins from automotive, higher service revenue and improved capacity utilization level.
- **Apart from Automotive, robotics solution is also witnessing traction** from other industries such as electronics, and 5G equipment manufacturing.

Financials

Income Statement (Rs m)

Y/e Dec	CY21	CY22	CY23E	CY24E
Net Revenues	69,340	85,675	1,01,482	1,18,187
YoY gr. (%)	19.1	23.6	18.4	16.5
Cost of Goods Sold	44,154	53,012	63,629	73,867
Gross Profit	25,187	32,664	37,853	44,320
Margin (%)	36.3	38.1	37.3	37.5
Employee Cost	5,882	6,353	7,053	7,919
Other Expenses	5,865	6,926	8,626	10,046
EBITDA	5,567	9,619	10,950	13,284
YoY gr. (%)	101.7	72.8	13.8	21.3
Margin (%)	8.0	11.2	10.8	11.2
Depreciation and Amortization	1,027	1,047	1,212	1,467
EBIT	4,540	8,572	9,738	11,817
Margin (%)	6.5	10.0	9.6	10.0
Net Interest	107	131	142	165
Other Income	1,596	1,795	2,182	2,600
Profit Before Tax	7,243	13,628	11,778	14,252
Margin (%)	10.4	15.9	11.6	12.1
Total Tax	1,918	3,372	2,968	3,592
Effective tax rate (%)	26.5	24.7	25.2	25.2
Profit after tax	5,325	10,256	8,810	10,661
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,433	7,703	8,810	10,661
YoY gr. (%)	138.4	73.8	14.4	21.0
Margin (%)	6.4	9.0	8.7	9.0
Extra Ord. Income / (Exp)	892	2,553	-	-
Reported PAT	5,325	10,256	8,810	10,661
YoY gr. (%)	131.1	92.6	(14.1)	21.0
Margin (%)	7.7	12.0	8.7	9.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,325	10,256	8,810	10,661
Equity Shares O/s (m)	212	212	212	212
EPS (Rs)	20.9	36.4	41.6	50.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Dec	CY21	CY22	CY23E	CY24E
Non-Current Assets				
Gross Block	11,724	13,600	16,600	23,100
Tangibles	11,724	13,600	16,600	23,100
Intangibles	-	-	-	-
Acc: Dep / Amortization	3,741	4,788	5,999	7,466
Tangibles	3,741	4,788	5,999	7,466
Intangibles	-	-	-	-
Net fixed assets	7,983	8,812	10,600	15,633
Tangibles	7,983	8,812	10,600	15,633
Intangibles	-	-	-	-
Capital Work In Progress	956	872	872	872
Goodwill	-	-	-	-
Non-Current Investments	87	75	325	378
Net Deferred tax assets	939	898	898	898
Other Non-Current Assets	4,410	3,538	6,089	6,737
Current Assets				
Investments	-	4,932	5,932	6,932
Inventories	10,091	14,207	14,736	15,219
Trade receivables	18,838	20,930	24,745	28,818
Cash & Bank Balance	26,877	31,491	32,803	32,904
Other Current Assets	3,672	4,447	5,582	6,500
Total Assets	79,789	92,284	1,09,953	1,23,626
Equity				
Equity Share Capital	424	424	424	424
Other Equity	40,028	48,970	55,137	62,600
Total Network	40,452	49,394	55,561	63,023
Non-Current Liabilities				
Long Term borrowings	185	210	210	210
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	181	121	121	121
Trade payables	19,613	26,368	27,803	32,380
Other current liabilities	20,296	17,090	27,157	28,790
Total Equity & Liabilities	79,789	92,284	1,09,953	1,23,626

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Dec	CY21	CY22	CY23E	CY24E
PBT	7,072	13,628	11,778	14,252
Add. Depreciation	1,027	1,047	1,212	1,467
Add. Interest	107	131	142	165
Less Financial Other Income	1,596	1,795	2,182	2,600
Add. Other	(1,598)	(4,601)	-	-
Op. profit before WC changes	6,608	10,206	13,132	15,884
Net Changes-WC	1,015	(194)	(2,067)	(1,328)
Direct tax	(1,131)	(2,467)	(2,968)	(3,592)
Net cash from Op. activities	6,492	7,545	8,097	10,965
Capital expenditures	(913)	2,021	(3,000)	(6,500)
Interest / Dividend Income	503	1,342	-	-
Others	(19,669)	14,899	(1,000)	(1,000)
Net Cash from Inv. activities	(20,079)	18,262	(4,000)	(7,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	(102)	(169)	-	-
Dividend paid	(1,060)	(1,102)	(2,643)	(3,198)
Interest paid	(107)	(131)	(142)	(165)
Others	-	-	-	-
Net cash from Fin. activities	(1,268)	(1,402)	(2,785)	(3,364)
Net change in cash	(14,855)	24,405	1,312	102
Free Cash Flow	4,770	5,865	5,097	4,465

Source: Company Data, PL Research

Key Financial Metrics

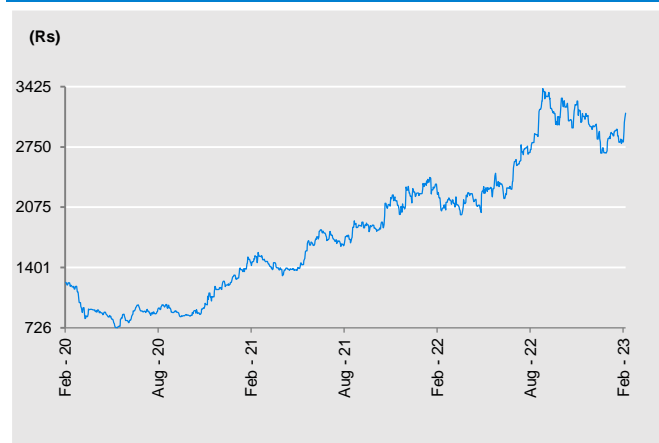
Y/e Dec	CY21	CY22	CY23E	CY24E
Per Share(Rs)				
EPS	20.9	36.4	41.6	50.3
CEPS	25.8	41.3	47.3	57.2
BVPS	190.9	233.1	262.2	297.4
FCF	22.5	27.7	24.1	21.1
DPS	5.2	5.5	12.5	15.1
Return Ratio(%)				
RoCE	11.7	18.9	18.4	19.8
ROIC	28.2	72.9	51.8	44.7
RoE	11.6	17.1	16.8	18.0
Balance Sheet				
Net Debt : Equity (x)	(0.7)	(0.7)	(0.7)	(0.6)
Net Working Capital (Days)	49	37	42	36
Valuation(x)				
PER	147.6	84.9	74.3	61.4
P/B	16.2	13.2	11.8	10.4
P/CEPS	119.8	74.8	65.3	54.0
EV/EBITDA	112.8	64.3	56.3	46.3
EV/Sales	9.1	7.2	6.1	5.2
Dividend Yield (%)	0.2	0.2	0.4	0.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Dec	Q1CY22	Q2CY22	Q3CY22	Q4CY22
Net Revenue	19,684	20,525	21,197	24,459
YoY gr. (%)	20.8	44.0	19.2	16.4
Raw Material Expenses	12,429	12,529	13,171	14,883
Gross Profit	7,255	7,996	8,027	9,576
Margin (%)	36.9	39.0	37.9	39.2
EBITDA	1,879	1,988	2,110	3,833
YoY gr. (%)	81.5	109.8	24.9	107.0
Margin (%)	9.5	9.7	10.0	15.7
Depreciation / Depletion	257	253	269	268
EBIT	1,622	1,734	1,841	3,565
Margin (%)	8.2	8.4	8.7	14.6
Net Interest	15	28	16	72
Other Income	373	253	469	700
Profit before Tax	4,913	1,959	2,753	4,193
Margin (%)	25.0	9.5	13.0	17.1
Total Tax	1,212	489	728	943
Effective tax rate (%)	24.7	24.9	26.4	22.5
Profit after Tax	3,701	1,471	2,025	3,250
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,491	1,471	1,687	3,250
YoY gr. (%)	56.2	115.3	40.6	103.8
Margin (%)	7.6	7.2	8.0	13.3
Extra Ord. Income / (Exp)	2,210	-	338	-
Reported PAT	3,701	1,471	2,025	3,250
YoY gr. (%)	145.7	115.3	68.8	67.9
Margin (%)	18.8	7.2	9.6	13.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,701	1,471	2,025	3,250
Avg. Shares O/s (m)	212	212	212	212
EPS (Rs)	7.0	6.9	8.0	15.3

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Jan-23	Accumulate	3,291	2,689
2	15-Nov-22	Accumulate	3,291	3,028
3	04-Oct-22	Accumulate	3,115	3,100
4	11-Aug-22	Accumulate	3,115	2,799
5	05-Jul-22	Hold	2,293	2,362
6	06-May-22	Hold	2,293	2,221
7	08-Apr-22	Hold	2,209	2,192

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	3,291	2,689
2	Apar Industries	BUY	2,260	1,687
3	Bharat Electronics	BUY	125	93
4	BHEL	Sell	36	80
5	Cummins India	Accumulate	1,708	1,578
6	Engineers India	BUY	89	80
7	GE T&D India	Hold	102	116
8	Kalpataru Power Transmission	BUY	670	493
9	KEC International	Accumulate	500	457
10	Larsen & Toubro	BUY	2,481	2,113
11	Praj Industries	BUY	495	364
12	Siemens	Accumulate	3,290	2,837
13	Thermax	Accumulate	2,556	1,956
14	Triveni Turbine	BUY	340	276
15	Voltamp Transformers	Hold	3,055	2,949

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

ANALYST CERTIFICATION

(Indian Clients)

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