

May 5, 2023

Q1CY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	CY24E	CY24E	CY23E	CY24E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	4,119		3,371	
Sales (Rs. m)	1,03,712	1,21,514	1,01,482	1,18,187
% Chng.	2.2	2.8		
EBITDA (Rs. m)	12,020	14,509	10,950	13,284
% Chng.	9.8	9.2		
EPS (Rs.)	45.5	55.1	41.6	50.3
% Chng.	9.5	9.6		

Key Financials - Standalone

Y/e Dec	CY22	CY23E	CY24E	CY25E
Sales (Rs. m)	85,693	1,03,712	1,21,514	1,42,531
EBITDA (Rs. m)	9,636	12,020	14,509	17,303
Margin (%)	11.2	11.6	11.9	12.1
PAT (Rs. m)	7,720	9,646	11,685	13,986
EPS (Rs.)	36.4	45.5	55.1	66.0
Gr. (%)	74.1	24.9	21.1	19.7
DPS (Rs.)	5.5	13.7	16.5	19.8
Yield (%)	0.1	0.4	0.4	0.5
RoE (%)	17.2	18.3	19.4	20.2
RoCE (%)	19.0	20.4	21.6	22.6
EV/Sales (x)	8.8	7.2	6.2	5.2
EV/EBITDA (x)	78.0	62.3	51.6	43.1
PE (x)	102.1	81.7	67.4	56.3
P/BV (x)	16.0	14.0	12.3	10.6

Key Data

ABB.BO | ABB IN

52-W High / Low	Rs.3,753 / Rs.2,077
Sensex / Nifty	61,054 / 18,069
Market Cap	Rs.788bn/ \$ 9,634m
Shares Outstanding	212m
3M Avg. Daily Value	Rs.1285.71m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	8.23
Domestic Institution	9.21
Public & Others	7.56
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	10.2	15.5	67.4
Relative	7.8	15.3	52.8

Amit Anwani

amitanwani@plindia.com | 91-22-66322250

Nilesh Soni

nileshsoni@plindia.com | 91-22-66322214

Strong outlook intact

Quick Pointers:

- Better price realization, volume growth and efficient capacity utilization resulted in EBITDA margin expansion (up 229 bps YoY to 11.8%).
- Opportunity pipeline continues to remain strong, providing order inflow visibility.

We revise our EPS estimates by +9.5%/+9.6% for CY23/24E given strong order pipeline, sustainable margins and management's focus on inorganic growth. ABB India (ABB) reported a strong quarterly performance with revenue growth of 22.5% YoY and EBITDA margins expansion of 229bps YoY. Going forward, margins are expected to sustain at current level (EBITDAM- 11.8% in Q1CY23) led by better price realization and company's focus on operational efficiencies. Order inflow will continue its momentum for short cycle order from tier 2/3/4 cities with customer focusing on quality products. Enquiry pipeline stands strong from high growth areas such as data center, renewables, electronics etc.

We remain positive on ABB given its 1) diversified business model, 2) focus on high growth segments (Electronics, Data center etc), 3) strong order pipeline and 4) organic/inorganic growth. The stock is trading at PE of 81.7x/67.4x/56.3x CY23/24/25E. We roll forward to Jun'25 estimates and maintain 'Accumulate' rating on stock with TP of Rs4,119 (Rs3,371 earlier), valuing it at 68x Jun'25E (earlier 67x CY24E), given strong outlook.

Strong revenue growth and healthy margins drives profitability: Sales grew 22.5% YoY to Rs24.1bn (PL estimate of ~Rs22.3bn), led by strong opening order book, higher volumes and increasing penetration in tier-2/3 cities. Motion segment revenue grew 35.8% YoY to Rs9.7bn; Electrification grew 16.1% YoY to Rs10bn; Process Automation grew 22.8% YoY to Rs4.2bn; and Robotics grew 4.4% YoY to Rs675mn. Gross margins expanded by 20bps QoQ and 235bps YoY to 36.3%, owing to better business mix. EBITDA grew 51.9% YoY to Rs2.9bn (PL estimate of Rs2.2bn), with EBITDA margins expansion of 229bps YoY to 11.8%, led by better price realization, volume growth and efficient capacity utilization. Adj. PAT grew 64.4% YoY to Rs2.5bn (PL estimate of Rs1.9bn) partially aided by higher other income (up 94% YoY to Rs723mn).

Strong order inflows of Rs31.3bn: Order inflows grew 36.4% YoY to Rs31.3bn from sectors such as metals, data centers, railways, cement, food & beverages city gas distribution, paints etc. Order book stands strong at Rs71.7bn (up 37% YoY) as on Q1CY23 (0.8x TTM revenue), providing revenue visibility for next couple of quarters. Key orders bagged during quarter include 1) Power handling systems for a spun-dyed specialty fiber and paints conglomerate, 2) Robotics solutions for painting of EV cars, 3) Smart power products for metals major and 4) Power distribution solutions for data center major.

Exhibit 1: Strong revenue growth and healthy margins drives profitability

Y/e Dec (Rs mn)	Q1CY22	Q2CY22	Q3CY22	Q4CY22	Q1CY23	YoY gr. (%)	QoQ gr. (%)	CY22	CY21	YoY gr. (%)
Revenue	19,684	20,525	21,197	24,269	24,112	22.5	(0.6)	85,693	69,340	23.6
Total Revenues	19,684	20,525	21,197	24,269	24,112	22.5	(0.6)	85,693	69,340	23.6
Expenditure	17,805	18,538	19,088	20,626	21,259	19.4	3.1	76,057	63,773	19.3
<i>as % of sales</i>	<i>90.5</i>	<i>90.3</i>	<i>90.0</i>	<i>85.0</i>	<i>88.2</i>			<i>88.8</i>	<i>92.0</i>	
Consumption of RM	12,998	13,096	13,819	15,513	15,356	18.1	(1.0)	55,426	46,263	19.8
<i>as % of sales</i>	<i>66.0</i>	<i>63.8</i>	<i>65.2</i>	<i>63.9</i>	<i>63.7</i>			<i>64.7</i>	<i>66.7</i>	
Employee Cost	1,750	1,457	1,561	1,585	1,878	7.3	18.5	6,353	5,882	8.0
<i>as % of sales</i>	<i>8.9</i>	<i>7.1</i>	<i>7.4</i>	<i>6.5</i>	<i>7.8</i>			<i>7.4</i>	<i>8.5</i>	
Other expenditure	3,057	3,985	3,708	3,528	4,025	31.7	14.1	14,277	11,627	22.8
<i>as % of sales</i>	<i>15.5</i>	<i>19.4</i>	<i>17.5</i>	<i>14.5</i>	<i>16.7</i>			<i>16.7</i>	<i>16.8</i>	
EBITDA	1,879	1,988	2,110	3,643	2,853	51.9	(21.7)	9,636	5,567	73.1
Depreciation	257	253	269	268	275	7.1	2.5	1,047	1,027	1.9
EBIT	1,622	1,734	1,841	3,375	2,578	58.9	(23.6)	8,589	4,540	89.2
Other Income	373	253	469	700	723	94.0	3.2	1,795	1,596	12.4
Interest	15	28	16	72	22	50.7	(69.2)	131	107	22.5
Exceptional Item	(2,934)	-	(459)	-	-			(3,393)	(1,213)	
PBT	4,913	1,959	2,753	4,002	3,279	(33.3)	(18.1)	13,646	7,243	88.4
Total Tax	1,212	489	728	943	827	(31.8)	(12.3)	3,372	1,918	75.8
Reported PAT	3,701	1,471	2,025	3,059	2,452	(33.8)	(19.9)	10,274	5,325	92.9
Adjusted PAT	1,491	1,471	1,687	3,059	2,452	64.4	(19.9)	7,720	4,433	74.1
Adj. EPS	7.0	6.9	8.0	14.4	11.6	64.4	(19.9)	36.4	20.9	74.1
Margins (%)	Q1CY22	Q2CY22	Q3CY22	Q4CY22	Q1CY23	bps	bps	CY22	CY21	bps
EBIDTA	9.5	9.7	10.0	15.0	11.8	229	(318)	11.2	8.0	322
EBIT	8.2	8.4	8.7	13.9	10.7	245	(321)	10.0	6.5	348
EBT	25.0	9.5	13.0	16.5	13.6	(1,136)	(289)	15.9	10.4	548
PAT	7.6	7.2	8.0	12.6	10.2	259	(244)	9.0	6.4	262
Effective Tax rate	24.7	24.9	26.4	23.6	25.2	56	166	24.7	26.5	(177)

Source: Company, PL

Exhibit 2: Motion, Process automation and Electrification drives growth

Segmental Performance	Q1CY22	Q2CY22	Q3CY22	Q4CY22	Q1CY23	YoY gr. (%)	QoQ gr. (%)	CY22	CY21	YoY gr. (%)
Revenue										
Robotics & Discrete Automation	647	482	577	628	675	4.4	7.5	2,333	2,553	(8.6)
Motion	7,157	8,339	8,822	9,353	9,722	35.8	4.0	33,671	25,917	29.9
Electrification	8,610	8,378	8,809	9,500	9,994	16.1	5.2	35,297	27,522	28.2
Process Automation	3,421	3,704	3,499	5,108	4,202	22.8	(17.7)	15,732	14,034	12.1
Others	111	112	49	19	19	(83.2)	0.5	290	505	(42.5)
Less Intersegmental	(261)	(490)	(557)	(339)	(500)	91.4	47.7	(1,647)	(1,190)	38.4
Total	19,684	20,525	21,197	24,269	24,112	22.5	(0.6)	85,675	69,340	23.6
EBIT										
Robotics & Discrete Automation	57	61	73	102	107	86.7	4.3	293	203	44.6
EBIT margin (%)	8.8	12.6	12.6	16.3	15.8			12.6	7.9	
Motion	954	738	931	1,502	1,168	22.4	(22.2)	4,125	3,239	27.3
EBIT margin (%)	13.3	8.9	10.6	16.1	12.0			12.3	12.5	
Electrification	1,180	963	1,280	1,455	1,946	64.9	33.8	4,878	3,060	59.4
EBIT margin (%)	13.7	11.5	14.5	15.3	19.5			13.8	11.1	
Process Automation	354	402	350	900	389	9.7	(56.8)	2,007	1,279	56.9
EBIT margin (%)	10.4	10.8	10.0	17.6	9.2			12.8	9.1	

Source: Company, PL

Key Conference Call Highlights

- **Opportunity pipeline continues to remain strong** providing order inflow visibility for next couple of quarters, from data center, gas distribution, power distribution, renewables, heavy industries (green field as well as brown field expansion) etc.
- **Order inflows:** Continues to witnessed strong growth across business in short cycle order from tier-2/3/4 cities. Automotive and electronic continued its growth momentum, while uptick was witnessed in railways and metro with high value products.
- **Services segment order inflows up 37% YoY** led by customers investing in improving reliability, maintainability and serviceability of their assets.
- Despite supply chain normalizing, company has maintained high level of inventory to meet the demand.
- **Growth is driven by product segment, from geographical expansion** (tier2/3/4 cities) across market segment, from channel partners and growth in user end user industry.
- PAT margins to be maintained at current 10% level going forward.
- Cash balance stands at Rs39.4bn as on Q1CY23 vs Rs27.1bn as on Q1CY22.
- **Electrification:** Order inflows up 44% to Rs13.4bn. Order inflow growth was driven by metals, data center, IT and channel partners. Margin expansion was due to higher volumes, better product mix, efficient capacity utilization, price realization.
- **Motions:** Order inflow grew 37% YoY to Rs12.2bn. Order inflow growth was driven by railways, metals, cement, F&B, oil & gas, high value wins in transportation and system drives (high value package order). Revenue growth (up 36% YoY) was driven by healthy opening order book and penetration in tier 2 & 3 cities. Margins were impacted during the quarter, due to one-off warranty cost provision in traction converters of Rs230mn.
- **Process Automation:** Order inflow came in at Rs4.6bn (flat YoY) from city gas distribution, terminal automation, life sciences, metals and energy exports. Revenue growth (up 23% YoY) was driven by milestone achieved in project execution and higher revenue from energy industry business. Margins were impacted due to system revenues.
- **Robotics and Discrete Automation:** Order inflow came in at Rs1.6bn (up 96% YoY). Order inflow was driven by paint order from large Indian conglomerate, automotive and electronics industry gaining momentum in robotics adoption. Margins expansion was driven by superior margin in service revenue and electronic revenues.

Financials

Income Statement (Rs m)

Y/e Dec	CY22	CY23E	CY24E	CY25E
Net Revenues	85,693	1,03,712	1,21,514	1,42,531
YoY gr. (%)	23.6	21.0	17.2	17.3
Cost of Goods Sold	53,012	64,457	75,278	88,156
Gross Profit	32,681	39,255	46,236	54,376
Margin (%)	38.1	37.9	38.1	38.2
Employee Cost	6,353	7,156	8,214	9,493
Other Expenses	7,483	9,127	10,620	12,614
EBITDA	9,636	12,020	14,509	17,303
YoY gr. (%)	73.1	24.7	20.7	19.3
Margin (%)	11.2	11.6	11.9	12.1
Depreciation and Amortization	1,047	1,189	1,445	1,606
EBIT	8,589	10,831	13,064	15,697
Margin (%)	10.0	10.4	10.8	11.0
Net Interest	131	145	170	200
Other Income	1,795	2,209	2,685	3,150
Profit Before Tax	13,646	12,895	15,579	18,648
Margin (%)	15.9	12.4	12.8	13.1
Total Tax	3,372	3,250	3,895	4,662
Effective tax rate (%)	24.7	25.2	25.0	25.0
Profit after tax	10,274	9,646	11,685	13,986
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	7,720	9,646	11,685	13,986
YoY gr. (%)	74.1	24.9	21.1	19.7
Margin (%)	9.0	9.3	9.6	9.8
Extra Ord. Income / (Exp)	2,554	-	-	-
Reported PAT	10,274	9,646	11,685	13,986
YoY gr. (%)	92.9	(6.1)	21.1	19.7
Margin (%)	12.0	9.3	9.6	9.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,274	9,646	11,685	13,986
Equity Shares O/s (m)	212	212	212	212
EPS (Rs)	36.4	45.5	55.1	66.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Dec	CY22	CY23E	CY24E	CY25E
Non-Current Assets				
Gross Block	13,398	16,398	22,398	24,898
Tangibles	13,398	16,398	22,398	24,898
Intangibles	-	-	-	-
Acc: Dep / Amortization	4,586	5,775	7,220	8,826
Tangibles	4,586	5,775	7,220	8,826
Intangibles	-	-	-	-
Net fixed assets	8,812	10,623	15,178	16,072
Tangibles	8,812	10,623	15,178	16,072
Intangibles	-	-	-	-
Capital Work In Progress	872	872	872	872
Goodwill	-	-	-	-
Non-Current Investments	75	332	389	442
Net Deferred tax assets	898	898	898	898
Other Non-Current Assets	3,538	6,223	7,169	8,409
Current Assets				
Investments	4,932	5,932	5,932	6,932
Inventories	14,207	15,060	16,646	18,353
Trade receivables	20,930	25,289	29,629	34,754
Cash & Bank Balance	31,491	32,998	33,113	36,274
Other Current Assets	4,447	5,704	6,683	7,839
Total Assets	92,284	1,11,484	1,25,515	1,41,209
Equity				
Equity Share Capital	424	424	424	424
Other Equity	48,970	55,722	63,901	73,691
Total Network	49,394	56,146	64,325	74,115
Non-Current Liabilities				
Long Term borrowings	210	210	210	210
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	121	121	121	121
Trade payables	26,368	28,414	33,292	39,050
Other current liabilities	17,090	27,491	28,466	28,611
Total Equity & Liabilities	92,284	1,11,484	1,25,515	1,41,209

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Dec	CY22	CY23E	CY24E	CY25E
PBT	13,503	12,895	15,579	18,648
Add. Depreciation	1,047	1,189	1,445	1,606
Add. Interest	131	145	170	200
Less Financial Other Income	1,795	2,209	2,685	3,150
Add. Other	(4,601)	-	-	-
Op. profit before WC changes	10,080	14,229	17,194	20,453
Net Changes-WC	(194)	(2,434)	(3,509)	(4,735)
Direct tax	(2,467)	(3,250)	(3,895)	(4,662)
Net cash from Op. activities	7,419	8,546	9,791	11,057
Capital expenditures	2,021	(3,000)	(6,000)	(2,500)
Interest / Dividend Income	1,342	-	-	-
Others	14,899	(1,000)	-	(1,000)
Net Cash from Inv. activities	18,262	(4,000)	(6,000)	(3,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	(169)	-	-	-
Dividend paid	(1,102)	(2,894)	(3,505)	(4,196)
Interest paid	(131)	(145)	(170)	(200)
Others	-	-	-	-
Net cash from Fin. activities	(1,402)	(3,039)	(3,675)	(4,395)
Net change in cash	24,280	1,507	115	3,161
Free Cash Flow	5,740	5,546	3,791	8,557

Source: Company Data, PL Research

Key Financial Metrics

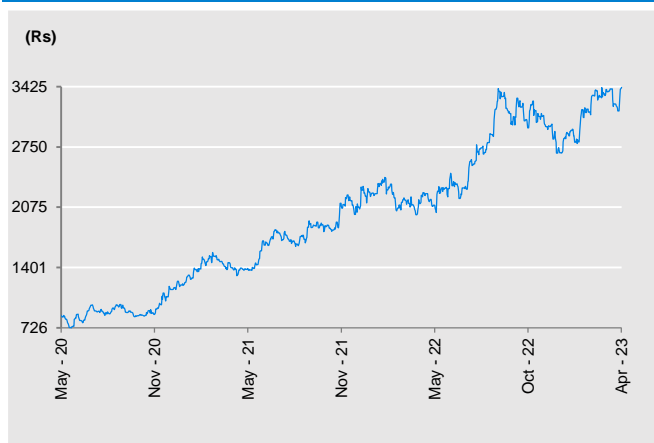
Y/e Dec	CY22	CY23E	CY24E	CY25E
Per Share(Rs)				
EPS	36.4	45.5	55.1	66.0
CEPS	41.4	51.1	62.0	73.6
BVPS	233.1	265.0	303.6	349.8
FCF	27.1	26.2	17.9	40.4
DPS	5.5	13.7	16.5	19.8
Return Ratio(%)				
RoCE	19.0	20.4	21.6	22.6
ROIC	73.1	57.2	45.5	44.7
RoE	17.2	18.3	19.4	20.2
Balance Sheet				
Net Debt : Equity (x)	(0.7)	(0.7)	(0.6)	(0.6)
Net Working Capital (Days)	37	42	39	36
Valuation(x)				
PER	102.1	81.7	67.4	56.3
P/B	16.0	14.0	12.3	10.6
P/CEPS	89.9	72.7	60.0	50.5
EV/EBITDA	78.0	62.3	51.6	43.1
EV/Sales	8.8	7.2	6.2	5.2
Dividend Yield (%)	0.1	0.4	0.4	0.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Dec	Q2CY22	Q3CY22	Q4CY22	Q1CY23
Net Revenue	20,525	21,197	24,269	24,112
YoY gr. (%)	44.0	19.2	15.5	22.5
Raw Material Expenses	12,529	13,171	14,883	14,364
Gross Profit	7,996	8,027	9,386	9,748
Margin (%)	39.0	37.9	38.7	40.4
EBITDA	1,988	2,110	3,643	2,853
YoY gr. (%)	109.8	24.9	96.7	51.9
Margin (%)	9.7	10.0	15.0	11.8
Depreciation / Depletion	253	269	268	275
EBIT	1,734	1,841	3,375	2,578
Margin (%)	8.4	8.7	13.9	10.7
Net Interest	28	16	72	22
Other Income	253	469	700	723
Profit before Tax	1,959	2,753	4,002	3,279
Margin (%)	9.5	13.0	16.5	13.6
Total Tax	489	728	943	827
Effective tax rate (%)	24.9	26.4	23.6	25.2
Profit after Tax	1,471	2,025	3,059	2,452
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,471	1,687	3,059	2,452
YoY gr. (%)	115.3	40.6	91.9	64.4
Margin (%)	7.2	8.0	12.6	10.2
Extra Ord. Income / (Exp)	-	338	-	-
Reported PAT	1,471	2,025	3,059	2,452
YoY gr. (%)	115.3	68.8	58.0	(33.8)
Margin (%)	7.2	9.6	12.6	10.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,471	2,025	3,059	2,452
Avg. Shares O/s (m)	212	212	212	212
EPS (Rs)	6.9	8.0	14.4	11.6

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Apr-23	Accumulate	3,371	3,400
2	14-Feb-23	Accumulate	3,371	3,088
3	04-Jan-23	Accumulate	3,291	2,689
4	15-Nov-22	Accumulate	3,291	3,028
5	04-Oct-22	Accumulate	3,115	3,100
6	11-Aug-22	Accumulate	3,115	2,799
7	05-Jul-22	Hold	2,293	2,362
8	06-May-22	Hold	2,293	2,221

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	3,371	3,400
2	Apar Industries	UR	-	2,695
3	Bharat Electronics	BUY	125	100
4	BHEL	Sell	36	71
5	Cummins India	Accumulate	1,708	1,587
6	Engineers India	BUY	85	74
7	GE T&D India	UR	-	128
8	Harsha Engineers International	BUY	440	414
9	Kalpataru Power Transmission	BUY	670	519
10	KEC International	Accumulate	559	514
11	Larsen & Toubro	BUY	2,479	2,310
12	Praj Industries	BUY	495	343
13	Siemens	Accumulate	3,351	3,384
14	Thermax	BUY	2,608	2,316
15	Triveni Turbine	BUY	340	332
16	Voltamp Transformers	Hold	3,056	2,905

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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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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