

August 12, 2023

Q2CY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	CY24E	CY25E	CY24E	CY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	5,013		4,119	
Sales (Rs. m)	1,24,255	1,47,232	1,21,514	1,42,531
% Chng.	2.3	3.3		
EBITDA (Rs. m)	16,153	19,376	14,509	17,303
% Chng.	11.3	12.0		
EPS (Rs.)	61.4	73.7	55.1	66.0
% Chng.	11.3	11.7		

Key Financials - Standalone

Y/e Dec	CY22	CY23E	CY24E	CY25E
Sales (Rs. m)	85,693	1,03,817	1,24,255	1,47,232
EBITDA (Rs. m)	9,636	13,174	16,153	19,376
Margin (%)	11.2	12.7	13.0	13.2
PAT (Rs. m)	7,720	10,560	13,009	15,621
EPS (Rs.)	36.4	49.8	61.4	73.7
Gr. (%)	74.1	36.8	23.2	20.1
DPS (Rs.)	5.5	15.0	18.4	22.1
Yield (%)	0.1	0.3	0.4	0.5
RoE (%)	17.2	19.9	21.2	21.9
RoCE (%)	19.0	22.5	24.0	24.8
EV/Sales (x)	10.7	8.8	7.4	6.2
EV/EBITDA (x)	95.4	69.6	56.6	47.0
PE (x)	123.8	90.5	73.5	61.2
P/BV (x)	19.4	16.8	14.5	12.4

Key Data

ABB.BO | ABB IN

52-W High / Low	Rs.4,615 / Rs.2,640
Sensex / Nifty	65,323 / 19,428
Market Cap	Rs.956bn / \$ 11,538m
Shares Outstanding	212m
3M Avg. Daily Value	Rs.1208.33m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	9.46
Domestic Institution	8.06
Public & Others	7.48
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.3	42.5	61.2
Relative	0.7	32.3	46.4

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Robust demand outlook to propel growth

Quick Pointers:

- Order inflow came in strong at Rs30bn, up 10% YoY, despite high base.
- Higher volumes, better price realization, product mix and efficient capacity utilization drives EBITDA margins expansion of 422bps YoY.

We revise our estimated for CY23/24/25E by 9.5%/11.3%/11.7%, factoring in strong domestic demand outlook, favorable product mix, better price realizations, increasing adoption of ABB's energy efficient products and sourcing by parent from ABB India to serve exports markets. ABB India (ABB) reported a robust quarterly performance, with revenue growth of 22.2% YoY and EBITDA margin expansion of 422bps YoY to 13.9%. Demand from core sectors (Cement, Metal, mining etc), high growth sector (food & beverages, pharma, automotive, water etc.) and new initiatives (data centers, railways, renewables etc) to propel stronger growth in medium term. Strong growth witnessed in short cycle orders across segments, coupled with increasing distribution reach (tier2/3 cities) fueled LV/MV product growth leading to better volumes and strong operating leverage playing in.

We remain positive on ABB given 1) increasing traction for energy efficient products, 2) changing customer preference towards value added products, 3) ABB's diversified business model, 4) focus on high growth segments (Electronics, Data center etc), 4) strong order pipeline 5) organic/inorganic growth. The stock is trading at PE of 90.5x/73.5x/61.2x CY23/24/25E. We roll forward to CY25 estimates and maintain 'Accumulate' rating on stock with revised TP of Rs5,013 (Rs4,119 earlier), valuing it at 68x CY'25E (same as earlier).

Higher volumes and reducing commodity prices drive EBITDA margins: Sales grew 22.2% YoY to Rs25.1bn (PLe ~Rs24.6bn), driven by high focus on execution, revenue mix and capacity utilization. Motion segment revenue grew 10% YoY to Rs9.2bn; Electrification grew 20% YoY to Rs10bn; Process Automation grew 37.6% YoY to Rs5.1bn; and Robotics grew 154.5% YoY to Rs1.2bn. EBITDA grew 75.4% YoY to Rs3.5bn (PLe ~Rs2.7bn), with EBITDA margins expanding by 422bps YoY to 13.9% (PLe 10.8%), driven by lower other expenses as % of sales (15.9% vs 19.4% in Q2CY22). Operational EBITA margin expanded 253bps YoY to 13.6%. Adj. PAT grew ~101% YoY to Rs2.95bn (PLe ~Rs2.1bn), partially aided by higher other income (up 196% YoY to Rs750mn).

Strong order inflows of Rs30bn: Despite high base, order inflow grew 10% YoY to Rs30bn, with base orders growing ~4% YoY. Order inflows growth was witnessed across business verticals except for Robotics division. Bagged large order from metal sector (Rs1.6bn). Order book stands strong at Rs77.3bn (0.8x TTM revenue).

Exhibit 1: Higher volumes and reducing commodity prices drive EBITDA margins

Y/e Dec (Rs mn)	Q2CY22	Q3CY22	Q4CY22	Q1CY23	Q2CY23	YoY gr. (%)	QoQ gr. (%)	H1CY23	H1CY22	YoY gr. (%)
Revenue	20,525	21,197	24,269	24,112	25,086	22.2	4.0	49,198	40,209	22.4
Total Revenues	20,525	21,197	24,269	24,112	25,086	22.2	4.0	49,198	40,209	22.4
Expenditure	18,538	19,088	20,626	21,259	21,599	16.5	1.6	42,858	36,342	17.9
<i>as % of sales</i>	<i>90.3</i>	<i>90.0</i>	<i>85.0</i>	<i>88.2</i>	<i>86.1</i>			<i>87.1</i>	<i>90.4</i>	
Consumption of RM	13,096	13,819	15,513	15,356	15,920	21.6	3.7	31,276	26,094	19.9
<i>as % of sales</i>	<i>63.8</i>	<i>65.2</i>	<i>63.9</i>	<i>63.7</i>	<i>63.5</i>			<i>63.6</i>	<i>64.9</i>	
Employee Cost	1,457	1,561	1,585	1,878	1,681	15.4	(10.5)	3,559	3,207	11.0
<i>as % of sales</i>	<i>7.1</i>	<i>7.4</i>	<i>6.5</i>	<i>7.8</i>	<i>6.7</i>			<i>7.2</i>	<i>8.0</i>	
Other expenditure	3,985	3,708	3,528	4,025	3,998	0.3	(0.7)	8,023	7,042	13.9
<i>as % of sales</i>	<i>19.4</i>	<i>17.5</i>	<i>14.5</i>	<i>16.7</i>	<i>15.9</i>			<i>16.3</i>	<i>17.5</i>	
EBITDA	1,988	2,110	3,643	2,853	3,487	75.4	22.2	6,340	3,866	64.0
Depreciation	253	269	268	275	292	15.4	6.4	567	510	11.2
EBIT	1,734	1,841	3,375	2,578	3,195	84.2	23.9	5,773	3,356	72.0
Other Income	253	469	700	723	750	196.2	3.8	1,473	626	135.3
Interest	28	16	72	22	14	(50.9)	(37.7)	36	43	(16.0)
Exceptional Item	-	(459)	-	-	-			-	(2,934)	
PBT	1,959	2,753	4,002	3,279	3,931	100.7	19.9	7,210	6,873	4.9
Total Tax	489	728	943	827	973	99.2	17.7	1,800	1,701	5.9
Reported PAT	1,471	2,025	3,059	2,452	2,958	101.1	20.7	5,410	5,172	4.6
Adjusted PAT	1,471	1,687	3,059	2,452	2,958	101.1	20.7	5,410	2,962	82.6
Adj. EPS	6.9	8.0	14.4	11.6	14.0	101.1	20.7	25.5	14.0	82.6
Margins (%)	Q2CY22	Q3CY22	Q4CY22	Q1CY23	Q2CY23	bps	bps	H1CY23	H1CY22	bps
EBIDTA	9.7	10.0	15.0	11.8	13.9	422	207	12.9	9.6	327
EBIT	8.4	8.7	13.9	10.7	12.7	429	204	11.7	8.3	339
EBT	9.5	13.0	16.5	13.6	15.7	613	207	14.7	17.1	(244)
PAT	7.2	8.0	12.6	10.2	11.8	463	162	11.0	7.4	363
Effective Tax rate	24.9	26.4	23.6	25.2	24.8	(18)	(47)	25.0	24.7	22

Source: Company, PL

Exhibit 2: Growth witnessed across key segments

Y/e Dec	Q2CY22	Q3CY22	Q4CY22	Q1CY23	Q2CY23	YoY gr. (%)	QoQ gr. (%)	H1CY23	H1CY22	YoY gr. (%)
Revenue										
Robotics & Discrete Automation	482	577	628	675	1,225	154.5	81.4	1,901	1,128	68.5
Motion	8,339	8,822	9,353	9,722	9,173	10.0	(5.7)	18,895	15,496	21.9
Electrification	8,378	8,809	9,500	9,994	10,056	20.0	0.6	20,051	16,988	18.0
Process Automation	3,704	3,499	5,108	4,202	5,096	37.6	21.3	9,298	7,125	30.5
Others	112	49	19	19	53	(52.8)	184.9	72	223	(67.9)
Less Intersegmental	(490)	(557)	(339)	(500)	(517)	5.5	3.4	(1,017)	(751)	35.4
Total	20,525	21,197	24,269	24,112	25,086	22.2	4.0	49,198	40,209	22.4
EBIT										
Robotics & Discrete Automation	61	73	102	107	155	154.7	45.0	261	118	121.7
<i>EBIT margin (%)</i>	<i>12.6</i>	<i>12.6</i>	<i>16.3</i>	<i>15.8</i>	<i>12.6</i>			<i>13.7</i>	<i>10.4</i>	
Motion	738	931	1,502	1,168	1,329	80.0	13.8	2,497	1,692	47.6
<i>EBIT margin (%)</i>	<i>8.9</i>	<i>10.6</i>	<i>16.1</i>	<i>12.0</i>	<i>14.5</i>			<i>13.2</i>	<i>10.9</i>	
Electrification	963	1,280	1,455	1,946	1,640	70.3	(15.7)	3,586	2,144	67.3
<i>EBIT margin (%)</i>	<i>11.5</i>	<i>14.5</i>	<i>15.3</i>	<i>19.5</i>	<i>16.3</i>			<i>17.9</i>	<i>12.6</i>	
Process Automation	402	350	900	389	568	41.2	46.0	956	756	26.5
<i>EBIT margin (%)</i>	<i>10.8</i>	<i>10.0</i>	<i>17.6</i>	<i>9.2</i>	<i>11.1</i>			<i>10.3</i>	<i>10.6</i>	

Source: Company, PL

Conference Call Highlights

- Pipeline continues to remain robust for ABB, owing to increasing reach (tier2/3 cities), demand for energy efficient products and strong demand scenario in domestic market, providing order inflows and revenue visibility.
- Shift in demand has being witnessed for energy efficient product from traditional product by smaller corporates too.
- Each product segment is seeing a strong order pipeline visibility in near to medium term.
- ABB will be looking for organic expansion factoring in robust demand scenario, current capacity utilization level and global division depending on ABB India to serve global markets.
- **Focus area:** Deeper penetration in geographical reach, focus on execution and margins backed with sustain order inflow visibility.
- **Order inflows:** Orders grew (10% YoY) driven by a good mix of emerging and traditional segments.
- Gross margins are likely to be in range of 36% owing to higher contribution of short cycle order from motions and electrification division.
- Expanded manufacturing footprint in energy efficiencies drive offering, factoring in strong opportunity.
- **Electrification:** Order inflow grew 15% YoY to Rs11bn, driven by growth across segment, traction in distribution solution division along with demand for LV components in industrial electrical and energy companies drove order traction for Electrification. PBIT Margins expanded to 16.3% vs 11.5% in Q2CY22 driven by product mix, higher price realization and capacity utilization. Distribution solution business is coming up with segment specific solution for tech driven product and energy efficient products for data center, F&B etc.
- **Motions:** Order inflow grew 8% YoY to Rs11.3bn, driven by strong momentum for energy efficient products, high value order for traction converter, customer engagement, greater penetration in Tier 2-3 cities. Expanding portfolio and production facility to meet demand. PBIT margins expanded to 14.5% vs 8.9% in Q2CY22 owing to better revenue mix, high volume and low base.
- **Process automation:** Order inflow grew 10% YoY to Rs7.8bn driven by uptick in exports market and opportunities from Metals, Cement and Energy segments. Revenue growth of 38% was owing to milestone based project execution. PBIT margin expansion (11.1% vs 10.8% in Q2CY22) was owing to higher services revenue and focus on operational efficiencies.
- **Robotics and Discrete Automation:** Order inflow declined 13% YoY to Rs610mn and expect to pickup in near term.

Financials

Income Statement (Rs m)

Y/e Dec	CY22	CY23E	CY24E	CY25E
Net Revenues	85,693	1,03,817	1,24,255	1,47,232
YoY gr. (%)	23.6	21.1	19.7	18.5
Cost of Goods Sold	53,012	63,484	76,106	90,474
Gross Profit	32,681	40,333	48,149	56,758
Margin (%)	38.1	38.9	38.8	38.6
Employee Cost	6,353	7,163	8,077	9,349
Other Expenses	7,483	9,032	10,736	12,574
EBITDA	9,636	13,174	16,153	19,376
YoY gr. (%)	73.1	36.7	22.6	19.9
Margin (%)	11.2	12.7	13.0	13.2
Depreciation and Amortization	1,047	1,164	1,380	1,595
EBIT	8,589	12,010	14,774	17,781
Margin (%)	10.0	11.6	11.9	12.1
Net Interest	131	125	174	206
Other Income	1,795	2,232	2,746	3,254
Profit Before Tax	13,646	14,118	17,346	20,828
Margin (%)	15.9	13.6	14.0	14.1
Total Tax	3,372	3,558	4,336	5,207
Effective tax rate (%)	24.7	25.2	25.0	25.0
Profit after tax	10,274	10,560	13,009	15,621
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	7,720	10,560	13,009	15,621
YoY gr. (%)	74.1	36.8	23.2	20.1
Margin (%)	9.0	10.2	10.5	10.6
Extra Ord. Income / (Exp)	2,554	-	-	-
Reported PAT	10,274	10,560	13,009	15,621
YoY gr. (%)	92.9	2.8	23.2	20.1
Margin (%)	12.0	10.2	10.5	10.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,274	10,560	13,009	15,621
Equity Shares O/s (m)	212	212	212	212
EPS (Rs)	36.4	49.8	61.4	73.7

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	21,898	25,398
Tangibles	13,398	16,398	21,898	25,398
Intangibles	-	-	-	-
Acc: Dep / Amortization	4,586	5,751	7,130	8,725
Tangibles	4,586	5,751	7,130	8,725
Intangibles	-	-	-	-
Net fixed assets	8,812	10,648	14,768	16,673
Tangibles	8,812	10,648	14,768	16,673
Intangibles	-	-	-	-
Capital Work In Progress	872	872	872	872
Goodwill	-	-	-	-
Non-Current Investments	75	125	149	162
Net Deferred tax assets	898	898	898	898
Other Non-Current Assets	3,538	6,229	7,331	8,687
Current Assets				
Investments	4,932	5,932	5,932	6,932
Inventories	14,207	15,075	17,021	18,959
Trade receivables	20,930	25,314	30,298	35,900
Cash & Bank Balance	31,491	33,499	35,192	37,875
Other Current Assets	4,447	5,710	6,834	8,098
Total Assets	92,284	1,11,864	1,28,524	1,45,788
Equity				
Equity Share Capital	424	424	424	424
Other Equity	48,970	56,362	65,469	76,404
Total Network	49,394	56,786	65,892	76,827
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	28,443	34,042	40,337
Other current liabilities	17,090	27,202	29,156	29,191
Total Equity & Liabilities	92,284	1,11,864	1,28,524	1,45,788

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Dec	CY22	CY23E	CY24E	CY25E
PBT	13,503	14,118	17,346	20,828
Add. Depreciation	1,047	1,164	1,380	1,595
Add. Interest	131	125	174	206
Less Financial Other Income	1,795	2,232	2,746	3,254
Add. Other	(4,601)	-	-	-
Op. profit before WC changes	10,080	15,406	18,899	22,630
Net Changes-WC	(194)	(2,548)	(3,293)	(5,347)
Direct tax	(2,467)	(3,558)	(4,336)	(5,207)
Net cash from Op. activities	7,419	9,301	11,270	12,075
Capital expenditures	2,021	(3,000)	(5,500)	(3,500)
Interest / Dividend Income	1,342	-	-	-
Others	14,899	(1,000)	-	(1,000)
Net Cash from Inv. activities	18,262	(4,000)	(5,500)	(4,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	(169)	-	-	-
Dividend paid	(1,102)	(3,168)	(3,903)	(4,686)
Interest paid	(131)	(125)	(174)	(206)
Others	-	-	-	-
Net cash from Fin. activities	(1,402)	(3,293)	(4,077)	(4,893)
Net change in cash	24,280	2,008	1,693	2,683
Free Cash Flow	5,740	6,301	5,770	8,575

Source: Company Data, PL Research

Key Financial Metrics

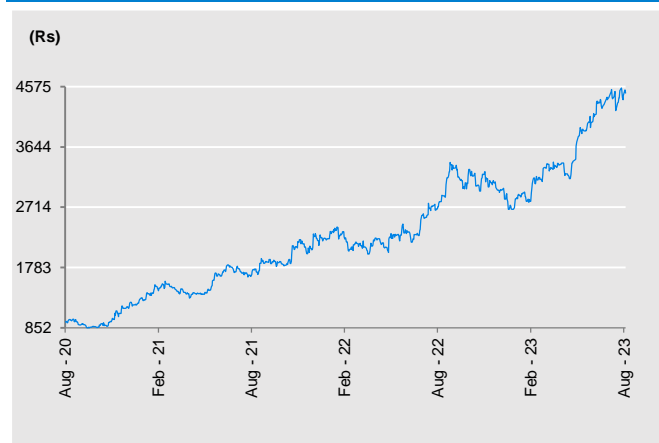
Y/e Dec	CY22	CY23E	CY24E	CY25E
Per Share(Rs)				
EPS	36.4	49.8	61.4	73.7
CEPS	41.4	55.3	67.9	81.2
BVPS	233.1	268.0	311.0	362.6
FCF	27.1	29.7	27.2	40.5
DPS	5.5	15.0	18.4	22.1
Return Ratio(%)				
RoCE	19.0	22.5	24.0	24.8
ROIC	73.1	64.2	53.9	49.6
RoE	17.2	19.9	21.2	21.9
Balance Sheet				
Net Debt : Equity (x)	(0.7)	(0.7)	(0.6)	(0.6)
Net Working Capital (Days)	37	42	39	36
Valuation(x)				
PER	123.8	90.5	73.5	61.2
P/B	19.4	16.8	14.5	12.4
P/CEPS	109.0	81.5	66.4	55.5
EV/EBITDA	95.4	69.6	56.6	47.0
EV/Sales	10.7	8.8	7.4	6.2
Dividend Yield (%)	0.1	0.3	0.4	0.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Dec	Q3CY22	Q4CY22	Q1CY23	Q2CY23
Net Revenue	21,197	24,269	24,112	25,086
YoY gr. (%)	19.2	15.5	22.5	22.2
Raw Material Expenses	13,171	14,883	14,702	15,280
Gross Profit	8,027	9,386	9,410	9,806
Margin (%)	37.9	38.7	39.0	39.1
EBITDA	2,110	3,643	2,853	3,487
YoY gr. (%)	24.9	96.7	51.9	75.4
Margin (%)	10.0	15.0	11.8	13.9
Depreciation / Depletion	269	268	275	292
EBIT	1,841	3,375	2,578	3,195
Margin (%)	8.7	13.9	10.7	12.7
Net Interest	16	72	22	14
Other Income	469	700	723	750
Profit before Tax	2,753	4,002	3,279	3,931
Margin (%)	13.0	16.5	13.6	15.7
Total Tax	728	943	827	973
Effective tax rate (%)	26.4	23.6	25.2	24.8
Profit after Tax	2,025	3,059	2,452	2,958
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,687	3,059	2,452	2,958
YoY gr. (%)	40.6	91.9	64.4	101.1
Margin (%)	8.0	12.6	10.2	11.8
Extra Ord. Income / (Exp)	338	-	-	-
Reported PAT	2,025	3,059	2,452	2,958
YoY gr. (%)	68.8	58.0	(33.8)	101.1
Margin (%)	9.6	12.6	10.2	11.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,025	3,059	2,452	2,958
Avg. Shares O/s (m)	212	212	212	212
EPS (Rs)	8.0	14.4	11.6	14.0

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	Accumulate	4,119	4,400
2	05-May-23	Accumulate	4,119	3,719
3	11-Apr-23	Accumulate	3,371	3,400
4	14-Feb-23	Accumulate	3,371	3,088
5	04-Jan-23	Accumulate	3,291	2,689
6	15-Nov-22	Accumulate	3,291	3,028
7	04-Oct-22	Accumulate	3,115	3,100

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	4,119	4,400
2	Apar Industries	Accumulate	4,100	3,782
3	Bharat Electronics	Accumulate	140	130
4	BHEL	Reduce	67	93
5	Carborundum Universal	BUY	1,482	1,259
6	Cummins India	Hold	1,788	1,796
7	Engineers India	Accumulate	165	155
8	GE T&D India	Hold	260	273
9	Grindwell Norton	BUY	2,604	2,191
10	Harsha Engineers International	Accumulate	474	432
11	Kalpataru Projects International	BUY	625	555
12	KEC International	Hold	645	658
13	Larsen & Toubro	BUY	2,955	2,560
14	Praj Industries	BUY	475	416
15	Siemens	Accumulate	4,241	3,779
16	Thermax	Hold	2,613	2,602
17	Triveni Turbine	Accumulate	419	398
18	Voltamp Transformers	Hold	4,611	4,802

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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