

## Rich valuations cap upside...

**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

**Q1CY23 Results:** ABB reported a strong performance in Q1CY23\*.

- Revenue at ₹ 2411 crore, grew 22.5% YoY, owing to better execution and value added volume mix
- EBITDA came in at ₹ 285.3 crore with margins of 11.8%. Strong margin growth was led by revenue mix, operational efficiencies coupled with cost optimisation
- Hence, adjusted PAT came in at ₹ 245.2 crore, up 64.4% YoY
- Order inflows for Q1CY23 came in at ~₹ 3125 crore, up 4% 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 change our rating from BUY to **HOLD** on the stock

**Target Price and Valuation:** We value ABB at ₹ 3735 (67x 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 a CAGR of ~21.2%, 39.4%, respectively, in CY21-24E due to strong traction in short cycle products and services

**Alternate Stock Idea:** We also like Larsen & Toubro in our coverage.

- Focus on asset monetisation to further strengthen the balance sheet and improve return ratios. Strong b/s, controlled working capital and strong cash generation
- BUY with a target price of ₹ 2795



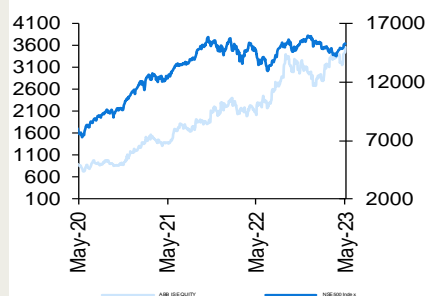
### Particulars

Particular	Amount
Market Capitalization	₹78830 Crore
Total Debt (CY22)	₹7.5 Crore
Cash and Inv. (CY22)	₹3149.2 crore
EV (CY22)	₹62126 Crore
52 week H/L (₹)	3754 / 2000
Equity capital	₹42.4 Crore
Face value	₹2

### Shareholding pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	75.0	75.0	75.0	75.0
FII	3.5	5.4	7.6	8.5
DII	8.6	11.9	9.7	9.0
Others	12.9	7.7	7.7	7.6

### Price Performance



### Recent events & Key risks

- **Key risk:** (i) Any slowdown in capex across infrastructure, transportation, industrials, power, manufacturing etc. (ii) Any exponential growth in margins

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### Key Financial Summary

(₹crore)	CY20	CY21	CY22	CY23E	CY24E	CY21-CY24E
Revenues	5,821	6,934	8,568	10,205	12,331	21.2
EBITDA	276	581	962	1,222	1,575	39.4
Adj Net Profit	175	467	770	947	1,210.8	37.4
EPS (₹)	10.3	26.3	48.4	44.7	57.1	
P/E (x)	451.2	168.9	102.3	83.3	65.1	
Price / Book (x)	21.9	16.2	13.2	11.4	9.7	
EV/EBITDA (x)	277.7	107.7	64.6	52.0	41.0	
RoCE (%)	18.6	46.6	57.8	49.9	58.3	
RoE (%)	4.8	11.6	15.6	16.2	17.1	

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

## Key takeaways of recent quarter & conference call highlights

### Q1CY23 Results: Positive performance continues...

- ABB reported revenue at ₹ 2411.2 crore (vs. our estimate of ₹ 2261.1 crore) which grew 22.5% YoY on strong order execution. Robotics & Motion segment grew 33.2% YoY to ₹ 1039.8 crore; Electrification segment grew 16.1% YoY to ₹ 999 crore while Industrial Automation segment revenue grew 22.8% YoY to ₹ 420 crore. Robotics & Motion, Electrification, Industrial Automation segments contributed ~42.3%, ~40.6%, 17.1%, respectively
- EBITDA came in at ₹ 285.3 crore (vs. our estimate of ₹ 257.6 crore) with EBITDA margin of 11.8% (our estimate was 11.3%) (vs. 9.5% in Q1CY22), while gross margins came in at 40.4% expanded 350 bps YoY and 170 bps on a QoQ basis. Robotics & Motion reported EBIT margin of 12.3% (vs. 13% in Q1CY22), Electrification EBIT margin was at 19.5% (vs. 13.7% in Q1CY22) while Industrial Automation EBIT margin at 9.2% vs. 10.4% YoY
- Adjusted PAT came in at ₹ 245.2 crore (vs. our estimate of ₹ 208 crore), grew 64.4% YoY aided by strong operational performance
- Order inflows came at ₹ 3125 crore, grew 36.4% YoY. The order backlog as of Q1CY23 was at ₹ 7170 crore, up 37.1% YoY. The order growth in electrification was across major segments and channels from diverse sectors – metals, data centres and IT majors. In Motion segment, the traction orders contributed significantly from channel partner business, railways, metals, cement, F&B and oil and gas, geographically from tier 2 and 3 cities. In transportation segment, railways and metro were also a contributor. Process automation received orders from city gas distribution, terminal automation, life sciences, metals and energy exports. In Robotics and Discrete Automation, automotive orders showed good traction with a solid inflow in paint orders

### ABB India - ESG Disclosure Score\*

Score	CY19	CY20	CY21
Environmental	69.6	67.8	67.8
Social	50.4	50.4	52.0
Governance	84.9	84.9	84.9
<b>Overall ESG Score</b>	<b>68.3</b>	<b>67.7</b>	<b>68.3</b>

*Source: Bloomberg, ICICI Direct Research, \*Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures*

### Q1CY23 Earnings Conference Call highlights

- Q1CY23 witnessed ABB India's best-ever order intake compared to Q1 of the last five years, complemented with seamless execution ABB India reported 22.5% YoY growth in revenues. ABB India continues to have a consistently growing order backlog as on Q1CY23 at ₹ 7,170 crore, which was up 37.1% YoY. Order inflow came in at ₹ 3,125 crore, grew 36.4% YoY. ABB's 80% revenue comes from products, 13% from services and 6% comes from projects
- Theme for the quarter - **Electronics**: Indian electronic market is expected to grow at a CAGR of 30% to \$300 billion by FY26. In this segment, ABB is quite positive in terms of supporting all the new capacities, which are coming in, which could beat a very high-end cellphone to industrial electronic, consumer electronics, electronic components, auto electronics and government's focus to really create more kind of independence from the global resources and have these capacities built inside the country
- **Electrification**: Electrification is very strong at this point of time as the company sees order growth of 44%, revenue growth of 16% and order backlog of 37%. It is a higher contribution from volume growth, which helped the businesses absorb the cost and deliver better profitability and price realisation. Major orders from diverse sectors – metals, data centres, and IT majors
- **Motion**: It is a mature business where the company sees the order growth was 37%, revenue growth was 36% in line with the order growth and as a result of that order backlog quite strong with 19%. Segment focus drove growth across sectors like railways, metals, cement, F&B and oil & gas. Higher contribution from better volumes offset by the one-off warranty cost provision in traction converters

- **Process industries:** The company has a strong pipeline, which will convert into orders in the next quarters to come. Orders wins from city gas distribution, terminal automation, life sciences, metals and energy exports. Revenues grew 23% and higher revenues came from energy industry business. The company expects EBIT margins on a blended basis from 11-12% tend to come 10-11%
- **Robotics & discrete automation:** Strong inflow in paint orders from large Indian conglomerates, also received large automotive orders. ABB expects electronics market looking to gain momentum. In Robotics the company is witnessing higher book & bill revenues and service revenues. Superior margins from service and electronics revenues
- ABB having a cash balance of ~₹ 3,942 crore out of which the company has already earmark certain cash of this for the expansions of their existing plants and actively looking for the M&A options
- **Business outlook:** Orders identified as focus high growth segments are electronics, data centres, warehouse & logistics. Water & waste water, F&B, pharma & healthcare, automotive, power distribution, Railway & Metro, Renewable, etc, are anticipated to provide high-moderate growth. Cement, metals & mining, oil & gas and chemicals, buildings & infra, rubber & plastics, marine & ports, pulp & paper, textile and conventional power, etc, are expected to provide moderate to low growth to the company

Exhibit 1: Variance analysis

	Q1CY23	1CY23E	Q1CY22	YoY (%)	Q4CY22	QoQ (%)	Comments
Revenue	2,411.2	2,261.1	1,968.3	22.5	2,426.9	-0.6	
Other Income	72.3	47.5	37.3	94.0	70.0	3.2	
Total Revenue	2,483.5	2,326.8	2,005.6	23.8	2,496.9	-0.5	
Raw material cost	1,189.3		1,090.3	9.1	1,292.8	-8.0	
Purchase of traded goods	201.0		179.8	11.8	182.6	10.1	
Changes in inventory	46.0		-27.2		13.0		
Sub-contract & direct exp	99.2		56.9	74.3	63.0	57.4	
Employee Expenses	187.8		175.0	7.3	158.5	18.5	
Other expenses	402.5		305.7	31.7	352.8	14.1	
Operating Profit (EBITDA)	285.3	257.6	187.8	51.9	364.3	-21.7	
EBITDA Margins	11.8%	11.3%	9.5%	229 bps	15.0%	-318 bps	Strong margin growth was revenue mix, operational efficiencies coupled with cost optimization
Interest	2.2	0.0	1.5	50.7	7.2	-69.2	
Depreciation	27.5		25.7	7.1	26.8	2.5	
Total Tax	82.7		121.2	-31.8	94.3	-12.3	
Extraordinary items	-0.3		2.9		-0.6		
PAT	245.2	208.8	370.1	-33.8	305.9	-19.9	

Segment-wise	Q1CY23	% cont	Q1CY22	YoY (%)	Q4CY22	QoQ (%)
<b>Revenue</b>						
Robotics and Motion	1039.8	43.1%	780.4	33.2	998.1	4.2
Electrification Products	999	41.4%	861.0	16.1	950	5.2
Industrial Automation	420	17.4%	342.1	22.8	511	-17.7
Total	2411.2	100.0%	1968.4	22.5	2426.9	-0.6
<b>EBIT Margin</b>						
Robotics and Motion	12.3%		13.0%		16.1%	
Electrification Products	19.5%		13.7%		15.3%	
Industrial Automation	9.2%		10.4%		17.6%	

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

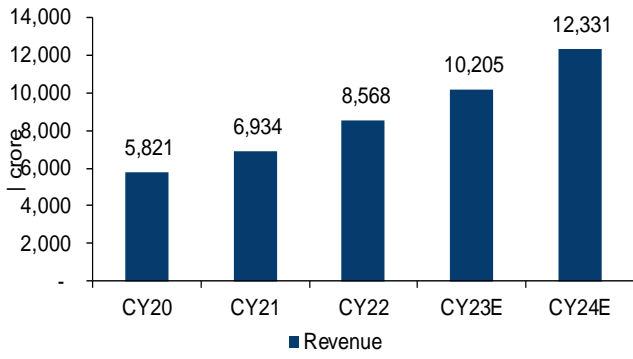
Exhibit 2: Change in estimates

	CY21	CY22E	CY23E		CY24E			
(₹C rore)	Actual	Actual	Old	New	% C hange	Old	New	C hange
Revenue	7,093.6	8,567.5	10,130.0	10,205.3	0.7	11,789.0	12,330.8	4.6
EBITDA	581.1	961.9	1,194.8	1,221.7	2.3	1,494.1	1,575.4	5.4
EBITDA Margin (%)	8.4%	11.2%	11.8%	12.0%	1.5	12.7%	12.8%	0.8
PAT	556.9	770.3	891.1	946.5	6.2	1,216.5	1,210.8	-0.5
EPS (₹)	26.3	48.4	42.1	44.7	6.1	57.4	57.1	-0.5

Source: Company, ICICI Direct Research

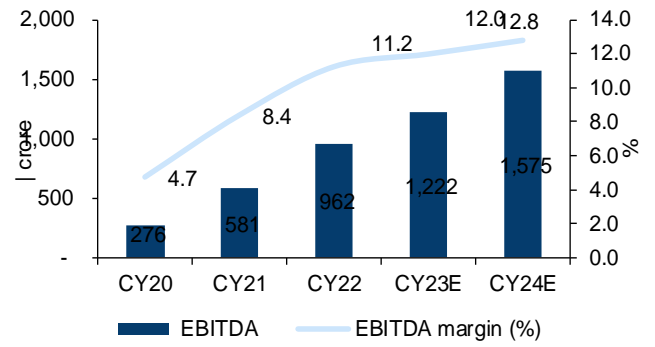
Financial story in charts:

Exhibit 3: Revenue trend...



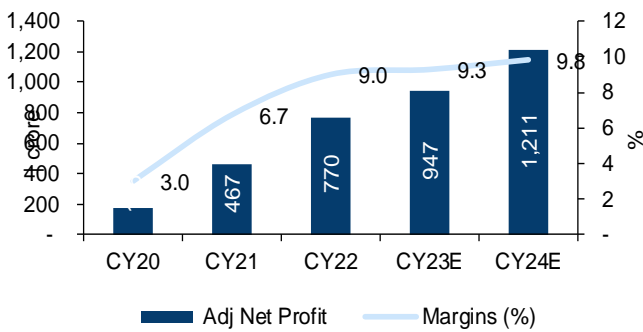
Source: ICICI Direct Research, Company

Exhibit 4: EBITDA and EBITDA margin trend



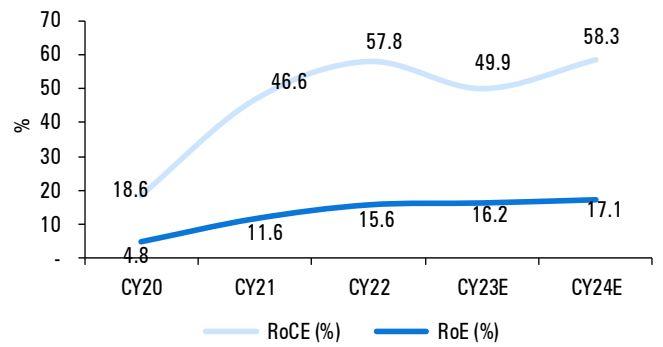
Source: ICICI Direct Research, Company

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	CY22	CY23E	CY24E
Net Sales	6,864	8,498	10,107	12,226
Operating income	70	69	98	105
Revenue	6,934	8,568	10,205	12,331
% Growth	(14.8)	23.6	19.1	20.8
Other income	159.6	179.5	198.0	225.0
Total	7,079	8,771	10,422	12,556
% Growth	(13.2)	23.9	18.8	20.5
Total Raw Material Costs	4,415	5,301	6,317	7,604
Employee Expenses	588	635	718	856
Other expenses	1,138	1,428	1,658	1,956
Total Operating Expenditure	6,353	7,606	8,984	10,755
<b>Operating Profit (EBITDA)</b>	<b>581</b>	<b>962</b>	<b>1,222</b>	<b>1,575</b>
% Growth	(18.4)	65.5	27.0	28.9
Interest	11	13	22	22
PBDT	730	1,128	1,398	1,778
Depreciation	103	105	136	164
PBT before Exceptional Item	627	1,024	1,262	1,614
Total Tax	192	337	316	404
PAT before MI	557	1,026	947	1,211
Minority Interest	-	-	-	-
<b>PAT</b>	<b>557</b>	<b>1,026</b>	<b>947</b>	<b>1,211</b>
% Growth	85.7	84.2	(7.7)	27.9
<b>EPS</b>	<b>26.3</b>	<b>48.4</b>	<b>44.7</b>	<b>57.1</b>

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

Exhibit 8: Cash flow statement ₹ crore

(₹Crore)	CY20	CY22	CY23E	CY24E
Profit after Tax	219	1,026	947	1,211
Depreciation	120	105	136	164
Interest	17	13	22	22
Cash Flow before WC changes	356	1,143	1,104	1,397
Changes in inventory	21	(412)	(89)	(314)
Changes in debtors	253	(209)	(116)	(460)
Changes in loans & Advances	349	14	(19)	(5)
Changes in other current assets	152	(138)	(55)	(104)
Net Increase in Current Assets	924	(802)	(280)	(884)
Changes in creditors	(181)	675	(120)	524
Changes in provisions	4	49	(31)	73
Net Inc in Current Liabilities	22	365	(414)	710
Net CF from Operating activities	1,302	706	411	1,223
Changes in deferred tax assets	(7)	4	-	-
(Purchase)/Sale of Fixed Asset	(102)	(184)	(175)	(175)
Net CF from Investing activities	(538)	(91)	(175)	(175)
Dividend and Dividend Tax	(102)	(110)	(117)	(117)
Net CF from Financing Activities	(155)	(141)	(157)	(162)
Net Cash flow	609	474	63	860
Opening Cash/Cash Equivalent	1,597	2,675	3,149	3,213
Closing Cash/Cash Equivalent	2,207	3,149	3,213	4,073

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet ₹ crore

(₹Crore)	CY20	CY22	CY23E	CY24E
Equity Capital	42.4	42.4	42.4	42.4
Reserve and Surplus	3,564	4,885	5,676	6,690
Total Shareholders funds	3,606	4,927	5,719	6,733
Minority Interest	-	-	-	-
Total Debt	5	7	7	7
<b>Total Liabilities</b>	<b>3,670</b>	<b>4,968</b>	<b>5,759</b>	<b>6,773</b>
Gross Block	1,024	1,240	1,419	1,594
Acc: Depreciation	315	382	517	681
Net Block	708	858	902	913
Capital WIP	75	69	65	65
Total Fixed Assets	783	927	967	978
Non Current Assets	724	492	492	492
Inventory	841	1,421	1,510	1,824
Debtors	1,695	2,093	2,209	2,669
Loans and Advances	18	5	24	29
Other Current Assets	436	445	500	604
Cash	2,207	3,149	3,213	4,073
Total Current Assets	6,084	7,899	8,210	9,761
Current Liabilities	1,721	2,637	2,516	3,040
Provisions	290	383	352	426
Net Current Assets	2,163	3,548	4,299	5,295
<b>Total Assets</b>	<b>3,670</b>	<b>4,968</b>	<b>5,759</b>	<b>6,773</b>

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios ₹ crore

(Year-end March)	CY21	CY22	CY23E	CY24E
<b>Per Share Data</b>				
EPS	26.3	48.4	44.7	57.1
Cash per Share	126.2	148.6	151.6	192.2
BV	190.3	232.5	269.9	317.7
Dividend per share	5.0	5.2	5.5	5.5
Dividend payout ratio	19%	11%	12%	10%
<b>Operating Ratios</b>				
EBITDA Margin	8.4	11.2	12.0	12.8
PAT Margin	8.0	12.0	9.3	9.8
<b>Return Ratios</b>				
RoE	11.6	15.6	16.2	17.1
RoCE	46.6	57.8	49.9	58.3
RoIC	87.2	67.3	60.9	67.4
<b>Valuation Ratios</b>				
EV / EBITDA	107.7	64.6	52.0	41.0
P/E	139.9	84.7	69.0	53.9
EV / Net Sales	9.0	7.3	6.1	5.2
Sales / Equity	1.7	1.7	1.8	1.8
Market Cap / Sales	9.4	7.6	6.4	5.3
Price to Book Value	16.2	13.2	11.4	9.7
<b>Turnover Ratios</b>				
Asset turnover	5.1	4.8	4.0	4.4
Debtors Turnover Ratio	3.9	4.3	4.7	5.1
Creditors Turnover Ratio	3.8	3.7	4.0	4.4
<b>Solvency Ratios</b>				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.9	1.1	1.2	1.3
Quick Ratio	0.6	0.7	0.8	0.8

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct coverage universe (Capital Goods)

Company	CMP		Rating	M Cap		EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP (₹)		(₹Cr)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	
L&T (LARTOU)	2,378	2,795	Buy	333611	59.4	81.3	99.1	40.0	29.2	24.0	9.6	11.5	12.9	11.7	14.5	15.7	
Siemens Ltd	3,634	3,788	Buy	129430	35.4	51.7	63.1	102.6	70.3	57.6	15.8	20.2	21.8	11.4	14.9	16.0	
AIA Engineering (AIAENG)	2,747	3,251	Buy	25914	114.0	98.5	107.7	24.1	27.9	25.5	24.7	18.5	18.1	19.4	14.8	14.2	
Thermax (THERMA)	2,342	2,372	Hold	27909	36.9	50.8	59.3	63.5	46.1	39.5	14.7	18.0	18.3	11.5	14.1	14.1	
KEC International (KECIN)	518	611	Buy	13305	4.8	18.7	35.9	107.4	27.7	14.4	9.6	17.1	22.9	3.5	12.6	20.0	
Greaves Cotton (GREAVE)	134	194	Buy	3100	5.0	4.7	5.5	27.0	28.3	24.2	13.4	13.3	13.9	9.8	9.7	10.2	
Elgi Equipment (ELGEQU)	447	500	Buy	14158	7.5	10.2	11.9	59.9	43.7	37.6	21.2	25.9	24.8	20.4	22.6	21.3	
Bharat Electronics (BHAELE)	106	130	Buy	77703	3.2	3.7	4.5	33.1	28.7	23.7	43.2	42.6	43.4	32.1	31.7	32.3	
Cochin Shipyard (COCSHI)	549	620	Buy	7227	42.5	39.6	41.1	12.9	13.9	13.4	11.4	10.8	10.4	12.7	11.1	10.9	
SKF (SKFIND)	4,165	5,215	Buy	20589	79.9	109.2	130.3	52.1	38.1	32.0	27.6	30.7	31.3	21.0	23.3	23.4	
Timken India (TIMIND)	3,032	3,560	Buy	22803	43.5	51.1	58.0	69.7	59.3	52.3	25.3	24.7	23.6	19.7	19.1	20.8	
NRB Bearing (NRBBEA)	149	220	Buy	1442	7.8	9.4	12.1	19.1	15.8	12.3	15.0	15.3	19.2	12.6	12.6	14.8	
Action Construction (ACTCON)	445	435	Buy	5297	8.8	15.4	20.1	50.5	28.9	22.1	23.0	29.8	29.7	13.9	18.6	19.6	
Data Patterns (DATPAT)	1712	1,670	Buy	8880	18.1	22.0	30.4	94.5	77.9	56.4	23.8	24.9	28.4	16.4	18.2	21.0	
HAL (HINAER)	2944	3,300	Buy	98456	151.9	177.4	143.9	19.4	16.6	20.5	27.4	32.8	28.0	26.3	28.6	21.2	
ABB (ABB)	3719	3,830	Hold	78806	26.3	48.4	44.7	141.5	76.8	83.3	46.6	57.8	49.9	11.6	15.6	16.2	
Ador Welding (ADOWEL)	1099	1,054	Buy	1494	33.2	34.2	49.3	33.1	32.1	22.3	19.9	21.6	26.7	13.6	15.8	19.6	
Bharat Dynamics (BHADYN)	1018	1,215	Buy	18658	26.8	18.8	40.4	38.0	54.1	25.2	24.7	15.5	28.7	17.0	11.0	20.6	
Mazagon Dock (MAZDOC)	780	745	Hold	15732	30.3	49.7	46.6	25.8	15.7	16.7	20.0	27.7	22.6	16.1	21.7	17.8	
Solar Industries India (SOLIN)	3804	4,700	Buy	34418	48.8	83.7	97.3	78.0	45.4	39.1	21.7	29.1	30.5	23.1	29.0	27.8	
Anup Engineering (THEANU)	1155	1,080	Buy	1143	62.7	49.5	72.3	18.4	23.3	16.0	15.3	16.6	19.4	12.2	12.5	14.4	
Control Prints (CONTROLPR)	582	690	Buy	951	24.7	32.4	39.2	23.5	18.0	14.8	21.7	26.8	28.4	14.6	17.9	17.8	
KSB Ltd. (KSBPUM)	2212	2,390	Buy	7697	42.9	52.5	66.3	51.6	42.1	33.4	16.4	17.6	19.8	14.8	16.0	17.6	
Garden Reach (GARREA)	504	520	Hold	5771	16.5	19.7	33.4	30.4	25.5	15.1	21.1	22.5	33.8	15.5	16.7	24.9	

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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