

Strong business momentum...

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

Q4CY22 Results: ABB reported a strong performance in Q4CY22*.

- Revenue at ₹ 2426.9 crore, grew 15.5% YoY, owing to better execution and value added volume mix
- EBITDA came in at ₹ 364.3 crore with margins of 15%. Strong margin growth was led by revenue mix, operational efficiencies coupled with cost optimisation and favourable forex fluctuation
- Hence, PAT came in at ₹ 305.9 crore, up 58% YoY
- Order inflows for Q4CY22 came in at ~₹ 2335 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 retain our **BUY** rating on the stock

Target Price and Valuation: We value ABB at ₹ 3735 (65x 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 CAGR of ~18.5%, 26.7%, respectively, in CY21-24E due to strong traction in short cycle products and services

Alternate Stock Idea: We also like Siemens Ltd in our coverage.

- Further penetration of valued added automation and digitisation products & services across segments to drive margins, long term growth
- BUY with a target price of ₹ 3630



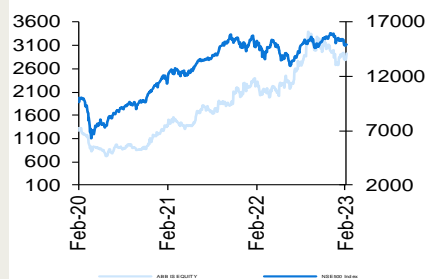
Particulars

Particular	Amount
Market Capitalization	₹65268 Crore
Total Debt (CY22)	₹5.2 Crore
Cash and Inv. (CY22)	₹3463.6 crore
EV (CY22)	₹61809.4 Crore
52 week H/L (₹)	3446 / 1945
Equity capital	₹42.4 Crore
Face value	₹2

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	75.0	75.0	75.0	75.0
FII	3.7	3.5	5.4	7.6
DII	8.2	8.6	11.9	9.7
Others	13.1	12.9	7.7	7.7

Price Performance



Recent events & Key risks

- **Key risk:** (i) Any slowdown in capex across infrastructure, transportation, industrials, power, manufacturing etc. (ii) Any slowdown in R&D spending towards automation and digitisation

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Key Financial Summary

(₹crore)	CY20	CY21	CY22	CY23E	CY24E	CY21-CY24E
Revenues	5,821	7,088	8,793	10,130	11,790	18.5
EBITDA	276	735	1,188	1,195	1,494	26.7
Adj Net Profit	175	550	927	891	1,216.5	30.3
EPS (₹)	10.3	30.4	56.2	42.1	57.4	
P/E (x)	373.6	118.7	70.4	73.2	53.6	
Price / Book (x)	18.1	15.8	12.6	11.1	9.4	
EV/EBITDA (x)	228.6	85.1	52.0	51.3	40.5	
RoCE (%)	18.6	53.0	70.1	63.6	74.3	
RoE (%)	4.8	13.3	17.9	15.1	17.5	

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

Key takeaways of recent quarter & conference call highlights

Q4CY22 Results: Positive performance continues...

- ABB reported revenue at ₹ 2426.9 crore (vs. our estimate of ₹ 2576.7 crore), up 15.5% YoY on strong order execution. Robotics & Motion segment grew 22.6% YoY to ₹ 998.1 crore; Electrification segment grew 11.9% YoY to ₹ 950 crore while Industrial Automation segment revenue grew 8.5% YoY to ₹ 511 crore. Robotics & Motion, Electrification, Industrial Automation segments contributed ~41.1%, ~39.1%, 21%, respectively
- EBITDA came in at ₹ 364 crore (vs. our estimate of ₹ 259.3 crore) with EBITDA margin of 15% (our estimate was 9.9%) (vs. 8.8% in Q4CY21), while gross margins came in at 38.7%, expanding 350 bps YoY. Robotics & Motion reported EBIT margin of 16.1% (vs. 13% in Q4CY21), Electrification EBIT margin was at 15.3% (vs. 12.8% in Q4CY21) while industrial automation EBIT margin was at 17.6% vs. 8.7% YoY
- Adjusted PAT came in at ₹ 305.9 crore (vs. our estimate of ₹ 182.4 crore), up 58% YoY aided by a strong operational performance
- Order inflows came at ₹ 2335 crore, up 4.1% YoY. For CY22, it came in at ₹ 10028 crore vs. ₹ 7666 crore in CY21, up 31% YoY. The order backlog as of Q4CY22 was at ₹ 6468 crore, up 32% YoY. Growth during the quarter (Q4CY22) was led by large value orders in industrial solutions and segments like data centres in Electrification. In Motion, better penetration in segments like railways, metals, rubber and food and beverage and enhanced presence tier 1 and 2 cities spurred growth. Process automation held steady with opportunities from paint industry and energy companies. Robotics received significant traction in paint orders from automotive and auto component companies

Q4CY22 Earnings Conference Call highlights

- Seamless execution of a solid order backlog, complemented by higher revenue from export & services and focused supply chain actions contributed to revenue growth during the quarter and the year. ABB India achieved a significant milestone in order inflow by reaching ₹ 10,028 crore in CY22 and ₹ 2,335 crore for Q4CY22, up 31%, 4.1%, respectively. The order backlog as of Q4CY22 was at ₹ 6,468 crore, up 32% YoY. This provides revenue visibility and is well aligned to support growth plans in the coming quarters
- The management is aiming at a strategic acquisition of ~₹ 2000 crore – ABB has strong cash balance of ₹ 3,600 crore on its books. ABB will go for small and medium size investments and acquisitions, which will be in segments like process automation, robotics automation, electrification, motion
- **Electrification:** Order inflows grew at 13% CAGR in the last five quarters backed by high growth segments. Efficient supply chain management enabled uninterrupted operations with strong backlog execution. Order backlog increased 20% YoY to ₹ 1583 crore. From a PBT perspective, with better product mix, volume and improved price realisations
- **Motion:** Order inflow growth was driven by traction convertors and large motors orders also from high value order win from railways. Revenue grew at 23% CAGR in the last five quarters. Export market allocation leading to enhanced growth in large motor business, recovery of traction converter business and higher penetration to Tier I & II cities. Stronger execution resulted in an improvement in products and service sales. Order backlog increased 52% YoY to ₹ 2645 crore

- **Process industries:** This was a real turnaround year for process automation (PA). There was solid growth in orders on a YoY basis and also on revenues with backlog at ₹ 2,645 crore, a 52% rise and good traction in terms of profitability. It was more due to efficient project execution and a very good share of services driving the profitability of PA.
- **Robotics & discrete automation:** Orders in the automotive segments witnessed significant uptick with CAGR of 213% in the last five quarters with higher service orders and electronics market looking to gain momentum. Order backlog was at ₹ 211 crore with 60% growth on a YoY basis. In its revenues, higher contribution comes from the service segment with better margins from automotive and service
- Strong 15% EBITDA margin is the result of four to five years of adoption of different strategies like rejigged product portfolio. The management is confident that ABB India will continue to execute at the same pace, going forward
- **Business outlook:** Orders identified as high focus growth segments are electronics, railways & metros, data centre, warehouse & logistics, renewables. Water & waste water, F&B, pharma & healthcare, automotive, etc, are anticipated to provide moderate growth. Power distribution, oil & gas and chemicals, metals & mining, buildings & infra, cement, rubber & plastics, textile, marine & ports, pulp & paper, etc, are expected to provide moderate-low growth to the company

Exhibit 1: Variance analysis

	Q4CY22	14CY22E	Q4CY21	YoY (%)	Q3CY22	QoQ (%)	Comments
Revenue	2,426.9	2,576.7	2,101.5	15.5	2,119.7	14.5	
Other Income	70.0	32.3	59.9	16.8	46.9	49.3	
Total Revenue	2,496.9	2,648.9	2,161.4	15.5	2,166.6	15.2	
Raw material cost	1,292.8		1,108.2	16.6	1,210.4	6.8	
Purchase of traded goods	182.6		197.4	-7.5	162.7	12.2	
Changes in inventory	13.0		56.4		-56.0		
Sub-contract & direct exp	63.0		66.7	-5.5	64.8	-2.8	
Employee Expenses	158.5		151.3	4.7	156.1	1.6	
Other expenses	352.8		336.1	4.9	370.8	-4.9	
Operating Profit (EBITDA)	364.3	259.3	185.2	96.7	211.0	72.7	
EBITDA Margins	15.0%	9.9%	8.8%	620 bps	10.0%	506 bps	Strong margin growth led by revenue mix, operational efficiencies coupled with cost optimisation and favourable forex fluctuation
Interest	7.2	15.1	3.9	86.1	1.6	364.1	
Depreciation	26.8		22.7	18.0	26.9	-0.2	
Total Tax	94.3		71.7	31.5	72.8	29.5	
Extraordinary items	-0.6		-5.4		-4.9		
PAT	305.9	182.4	193.6	58.0	202.5	51.1	

Segment-wise	Q4CY22	% cont	Q4CY21	YoY (%)	Q3CY22	QoQ (%)
Revenue						
Robotics and Motion	998.1	41.1%	814.3	22.6	939.8	6.2
Electrification Products	950	39.1%	849.3	11.9	881	7.8
Industrial Automation	511	21.0%	470.8	8.5	350	46.0

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

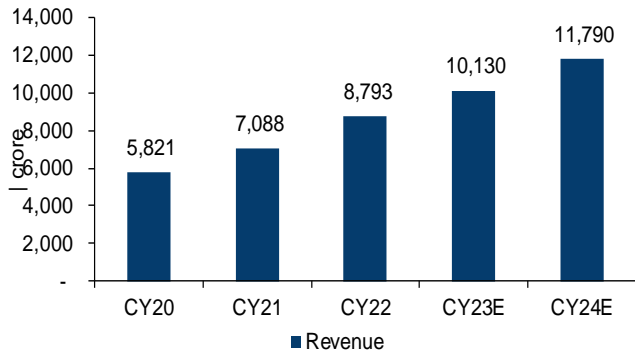
Exhibit 2: Change in estimates

(₹ Crore)	CY21	CY22E	CY23E			CY24E		
	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	7,197.6	8,793.2	10,224.7	10,130.2	-0.9	12,135.2	11,789.7	-2.8
EBITDA	734.7	1,187.6	1,062.7	1,194.8	12.4	1,342.4	1,494.1	11.3
EBITDA Margin (%)	10.4%	13.5%	10.4%	11.8%	13.4	11.1%	12.7%	14.2
PAT	643.2	927.4	788.9	891.1	13.0	1,099.9	1,216.5	10.6
EPS (₹)	30.4	56.2	37.2	42.1	13.0	51.9	57.4	10.6

Source: Company, ICICI Direct Research

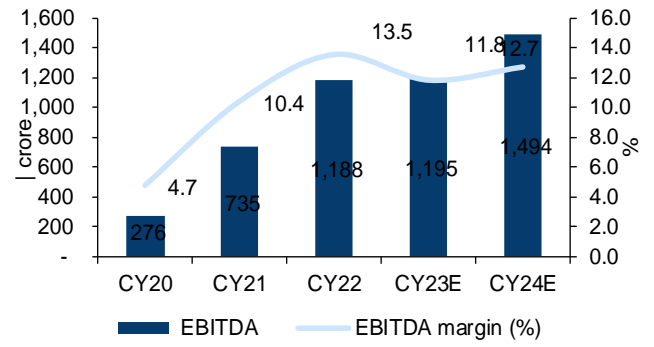
Financial story in charts:

Exhibit 3: Revenue trend...



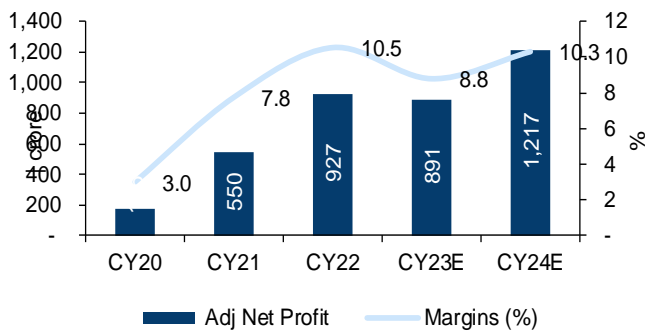
Source: ICICI Direct Research, Company

Exhibit 4: EBITDA and EBITDA margin trend



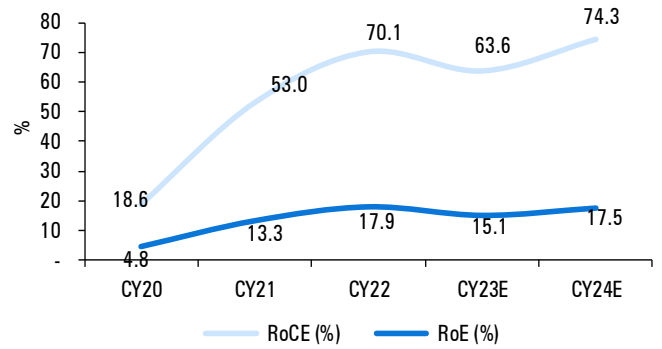
Source: ICICI Direct Research, Company

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	7,003	8,703	10,032	11,692
Operating income	85	90	98	98
Revenue	7,088	8,793	10,130	11,790
% Growth	(12.9)	24.1	15.2	16.4
Other income	110.0	120.0	150.0	150.0
Total	7,185	8,937	10,295	11,940
% Growth	(11.9)	24.4	15.2	16.0
Total Raw Material Costs	4,415	5,301	6,320	7,272
Employee Expenses	588	635	702	818
Other expenses	1,138	1,428	1,635	1,871
Total Operating Expenditure	6,353	7,606	8,935	10,296
Operating Profit (EBITDA)	735	1,188	1,195	1,494
% Growth	3.1	61.6	0.6	25.0
Interest	11	13	22	22
PBDT	834	1,294	1,323	1,622
Depreciation	120	105	135	-
PBT before Exceptional Item	714	1,190	1,188	1,622
Total Tax	192	337	297	406
PAT before MI	643	1,192	891	1,217
Minority Interest	-	-	-	-
PAT	643	1,192	891	1,217
% Growth	114.5	85.3	(25.2)	36.5
EPS	30.4	56.2	42.1	57.4

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

Exhibit 8: Cash flow statement				
₹ crore				
(₹Crore)	CY20	CY22	CY23E	CY24E
Profit after Tax	219	1,192	891	1,217
Depreciation	120	105	135	-
Interest	17	13	22	22
Cash Flow before WC changes	356	1,310	1,048	1,239
Changes in inventory	21	(364)	(126)	(246)
Changes in debtors	253	(176)	(133)	(359)
Changes in loans & Advances	349	(2)	(3)	(4)
Changes in other current assets	152	(141)	(48)	(81)
Net Increase in Current Assets	924	(684)	(309)	(690)
Changes in creditors	(181)	424	113	409
Changes in provisions	4	(1)	16	57
Net Inc in Current Liabilities	22	380	164	554
Net C F from Operating activities	1,302	1,006	903	1,103
Changes in deferred tax assets	(7)	-	-	-
(Purchase)/Sale of Fixed Asset	(102)	(150)	(175)	(175)
Net C F from Investing activities	(538)	(150)	(175)	(175)
Dividend and Dividend Tax	(102)	(117)	(148)	(170)
Net C F from Financing Activities	(155)	(153)	(188)	(195)
Net Cash flow	609	702	540	733
Opening Cash/Cash Equivalent	1,597	2,761	3,464	4,003
Closing Cash/Cash Equivalent	2,207	3,464	4,003	4,736

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	5,128	5,853	6,896
Total Shareholders funds	3,606	5,170	5,895	6,938
Minority Interest	-	-	-	-
Total Debt	5	5	5	5
Total Liabilities	3,670	5,212	5,937	6,980
Gross Block	1,024	1,153	1,328	1,470
Acc: Depreciation	315	382	516	516
Net Block	708	771	812	954
Capital WIP	75	65	65	65
Total Fixed Assets	783	836	877	1,019
Non Current Assets	724	589	589	589
Inventory	841	1,373	1,499	1,744
Debtors	1,695	2,060	2,193	2,552
Loans and Advances	18	21	24	28
Other Current Assets	436	448	496	578
Cash	2,207	3,464	4,003	4,736
Total Current Assets	6,084	8,095	8,944	10,367
Current Liabilities	1,721	2,385	2,498	2,907
Provisions	290	334	350	407
Net Current Assets	2,163	3,729	4,414	5,282
Total Assets	3,670	5,155	5,880	6,890

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
₹ crore				
(Year-end March)	CY21	CY22	CY23E	CY24E
Per Share Data				
EPS	30.4	56.2	42.1	57.4
Cash per Share	130.3	163.4	188.9	223.5
BV	194.4	244.0	278.2	327.4
Dividend per share	5.0	5.5	7.0	8.0
Dividend payout ratio	16%	10%	17%	14%
Operating Ratios				
EBITDA Margin	10.4	13.5	11.8	12.7
PAT Margin	9.1	13.6	8.8	10.3
Return Ratios				
RoE	13.3	17.9	15.1	17.5
RoCE	53.0	70.1	63.6	74.3
RoIC	112.0	133.8	102.9	107.1
Valuation Ratios				
EV / EBITDA	85.1	52.0	51.3	40.5
P/E	118.7	70.4	73.2	53.6
EV / Net Sales	8.8	7.0	6.0	5.1
Sales / Equity	1.7	1.7	1.7	1.7
Market Cap / Sales	9.2	7.4	6.4	5.5
Price to Book Value	15.8	12.6	11.1	9.4
Turnover Ratios				
Asset turnover	5.2	5.1	5.3	5.3
Debtors Turnover Ratio	4.0	4.5	4.8	5.0
Creditors Turnover Ratio	3.8	4.0	4.1	4.4
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.9	1.0	1.1	1.1
Quick Ratio	0.6	0.7	0.7	0.7

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)	2,205	2,795	Buy	309378	59.8	74.5	90.1	36.9	29.6	24.5	8.7	10.7	12.1	11.8	13.4	14.6	
Siemens Ltd	3,100	3,630	Buy	110397	35.4	46.4	53.8	87.5	66.8	57.7	15.6	18.2	19.1	11.3	13.4	14.0	
AIA Engineering (AIAENG)	2,790	3,230	Buy	26315	107.3	97.9	107.0	26.0	28.5	26.1	23.5	18.6	18.2	18.5	14.9	14.3	
Thermax (THERMA)	2,114	2,372	Hold	25195	37.0	50.8	59.3	57.1	41.6	35.7	14.7	18.0	18.3	11.5	14.1	14.1	
KEC International (KECIN)	471	545	Buy	12098	6.6	24.4	36.3	71.2	19.3	12.9	9.6	18.4	21.8	4.9	15.6	19.4	
Greaves Cotton (GREAVE)	135	194	Buy	3121	4.8	4.7	5.5	28.3	28.5	24.4	12.9	13.4	14.0	9.4	9.7	10.2	
Elgi Equipment (ELGEQU)	448	500	Buy	14185	7.5	10.2	11.9	60.0	43.7	37.7	21.2	25.9	24.8	20.4	22.6	21.3	
Bharat Electronics (BHAELE)	94	135	Buy	68748	3.2	3.8	4.5	29.4	24.8	20.9	26.1	28.4	30.0	19.5	21.2	22.4	
Cochin Shipyard (COCSHI)	477	745	Buy	6274	42.9	38.6	42.8	11.1	12.4	11.1	10.9	10.5	10.6	12.7	11.0	11.3	
SKF (SKFIND)	4,356	5,215	Buy	21535	77.0	108.7	130.3	56.6	40.1	33.4	26.0	30.7	31.3	20.6	23.3	23.4	
Timken India (TIMIND)	2,973	3,560	Buy	22363	43.5	61.3	71.2	68.3	48.5	41.8	25.3	36.2	42.0	19.7	27.9	32.2	
NRB Bearing (NRBBEA)	142	220	Buy	1377	7.8	9.2	12.1	18.2	15.4	11.7	15.0	15.3	19.2	12.6	12.6	14.8	
Action Construction (ACTCON)	378	385	Buy	4496	8.8	15.1	19.2	42.9	25.0	19.7	23.0	25.6	26.7	13.9	18.3	18.9	
Data Patterns (DATPAT)	1407	1,555	Buy	7303	18.1	22.0	30.4	77.7	64.0	46.3	23.8	24.9	28.4	16.4	18.2	21.0	
HAL (HINAER)	2,467	3,300	Buy	82506	151.9	132.7	145.0	16.2	18.6	17.0	27.4	30.5	30.1	26.3	23.1	22.8	
ABB (ABB)	3,152	3,275	Buy	66801	25.5	40.5	37.2	123.8	77.8	84.7	45.0	49.2	57.3	11.2	12.9	15.1	
Ador Welding (ADOWEL)	838	1,054	Buy	1140	33.2	34.2	49.3	25.2	24.5	17.0	19.9	21.6	26.7	13.6	15.8	19.6	
Bharat Dynamics (BHADYN)	816	1,200	Buy	14958	27.3	33.0	42.7	29.9	24.8	19.1	24.6	24.7	27.9	17.3	17.7	20.0	
Mazagon Dock (MAZDOC)	713	1,025	Hold	14372	30.3	39.8	46.6	23.5	17.9	15.3	20.0	22.9	23.5	16.1	18.2	18.5	
Solar Industries India (SOLIN)	3,663	4,700	Buy	33147	48.8	76.6	99.7	75.1	47.8	36.7	22.5	32.5	34.6	23.9	29.0	28.8	
Anup Engineering (THEANU)	1,130	1,080	Buy	1119	62.7	49.5	72.3	18.0	22.8	15.6	15.3	16.6	19.4	12.2	12.5	14.5	
Control Prints (CONTROLPR)	469	555	Buy	766	24.7	28.7	34.6	19.0	16.3	13.6	17.9	21.4	23.4	13.8	15.4	16.3	
KSB Ltd. (KSBPUM)	1,850	2,180	Buy	6438	43.7	50.0	62.2	42.3	37.0	29.7	15.7	16.0	18.3	14.7	14.9	15.9	

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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