

HOLD
 TP: Rs 3,220 | ▲ 5%

ABB INDIA

| Capital Goods

| 13 February 2023

Q4 beat; retain HOLD on full valuations

- Q4CY22 robust with revenue up 16% YoY and margins buoyed by motion and industrial automation businesses
- After attaining Rs 100bn of order inflows, management aims to achieve Rs 100bn in revenue and a 10% PAT margin in medium term
- We broadly retain estimates and roll over to a new TP of Rs 3,220 (vs. Rs 3,100); maintain HOLD as positives are largely priced in

Vinod Chari | Tanay Rasal
 Nilesh Patil
 research@bobcaps.in

Q4 beats estimates: ABB reported a stellar Q4CY22 backed by robust volumes, a favourable product mix, efficient supply chain management, and pricing power. Revenue increased 16% YoY to Rs 24.3bn (Rs 23.5bn est.), led by broad-based growth of 15% in robotics (to Rs 628mn), 23% in the motion division (Rs 9.4bn), 12% in electrification (Rs 9.5bn), and 8% in industrial automation (Rs 5.1bn). EBITDA margin at 15% expanded 620bps YoY, beating our estimate of 10.1%, aided by strong margin gains across divisions. Adj. PAT thus grew 92% YoY to Rs 3.1bn (Rs 1.8bn est.).

Optimistic guidance; inorganic growth focus: Given that order inflows have crossed Rs 100bn, management has guided for revenue of Rs 100bn, gross margin of 35-37%, and PAT margin of 10% in CY23. The company remains focused on growth with capital earmarked for inorganic expansion and a strong pipeline of potential investment and acquisition targets, both global and local. This includes investments towards digitalisation (for partnerships that enhance the core portfolio and drive value-add for customers) as well as growth in energy and energy-efficiency sectors.

Order pipeline intact: ABB's order inflows stood at Rs 26bn, a dip of 4% YoY in Q4CY22 as the base quarter had Rs 3.1bn of large orders. The company did not receive any big-ticket contracts in Q4, securing only base flows, but indicated that it has a strong funnel of potential inflows. ABB aims to secure ~Rs 23bn of base orders every quarter. Additionally, a rejig of the robotics and discrete automation portfolio along with improved offerings in the logistics sector has boosted margins (EBITDA margin up 620bps YoY to 15% in Q4), and the company is looking to stay at these levels

Retain HOLD: We expect a revenue/EBITDA/PAT CAGR of 20%/18%/24% over CY22-CY24. Though bullish on ABB's structural growth story, we think current valuations price in most positives, leading us to retain HOLD. We continue to value the stock at 65x P/E – in line with the 5Y mean – but roll valuations forward to Dec'24E, yielding a revised TP of Rs 3,220 (earlier Rs 3,100).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ABB IN/Rs 3,080
Market cap	US\$ 7.9bn
Free float	25%
3M ADV	US\$ 14.5mn
52wk high/low	Rs 3,446/Rs 1,945
Promoter/FPI/DII	75%/4%/9%

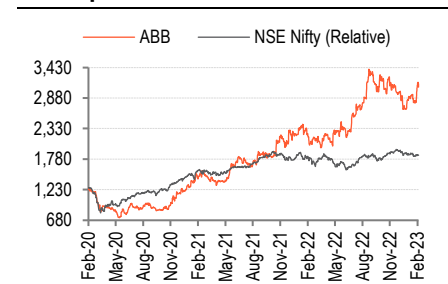
Source: NSE | Price as of 13 Feb 2023

Key financials

Y/E 31 Dec	CY21A	CY22E	CY23E
Total revenue (Rs mn)	69,340	85,675	1,02,044
EBITDA (Rs mn)	5,567	9,619	10,423
Adj. net profit (Rs mn)	4,433	6,864	8,267
Adj. EPS (Rs)	20.9	32.4	39.0
Consensus EPS (Rs)	20.9	31.8	40.3
Adj. ROAE (%)	11.6	15.3	15.6
Adj. P/E (x)	147.2	95.1	78.9
EV/EBITDA (x)	117.2	67.8	62.6
Adj. EPS growth (%)	138.4	54.8	20.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

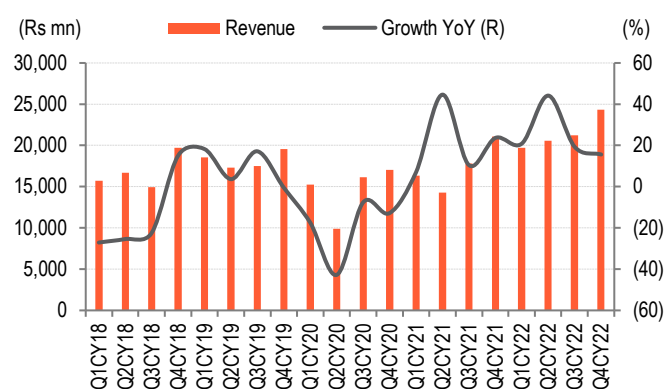


Fig 1 – Quarterly performance

Particulars (Rs mn)	Q4CY22	Q4CY21	YoY (%)	Q3CY22	QoQ (%)
Revenue	24,269	21,015	15.5	21,197	14.5
EBITDA	3,643	1,852	96.7	2,110	72.7
EBITDA Margin (%)	15.0	8.8	620bps	10.0	506bps
Depreciation	268	227	-	269	-
Interest	72	39	-	16	-
Other Income	700	599	-	469	-
PBT	4,002	2,185	83.2	2,294	74.5
Tax	943	591	-	728	-
Adjusted PAT	3,059	1,594	91.9	1,566	95.4
Exceptional item	0	(342)	-	(459)	-
Reported PAT	3,059	1,936	58.0	2,025	51.1
Adj. PAT Margin (%)	12.6	7.6	502bps	7.4	522bps
EPS (Rs)	14.4	7.5	91.9	7.4	95.4

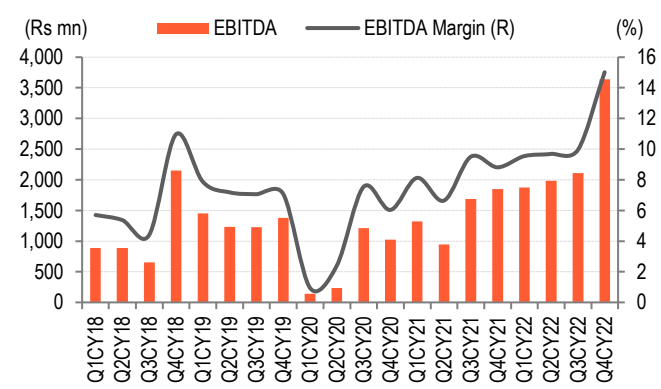
Source: Company, BOBCAPS Research

Fig 2 – Revenue trend



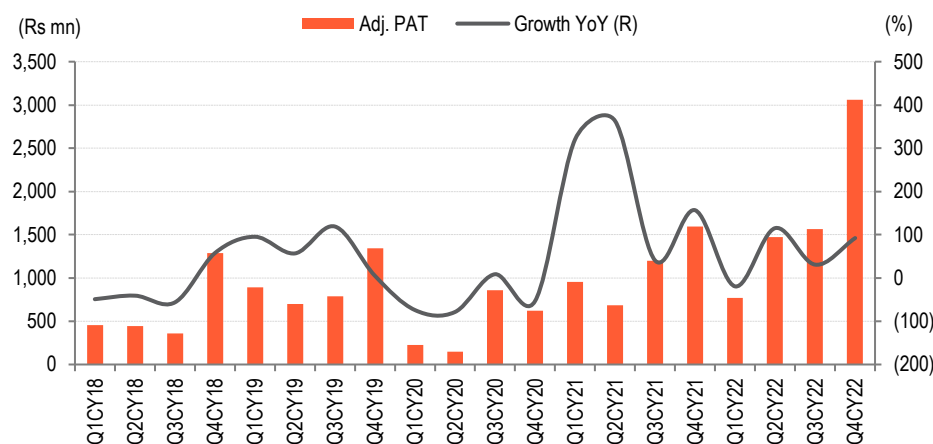
Source: Company, BOBCAPS Research

Fig 3 – EBITDA trend



Source: Company, BOBCAPS Research

Fig 4 – Adj. PAT trend



Source: Company, BOBCAPS Research

Valuation methodology

We expect a revenue/EBITDA/PAT CAGR of 20%/18%/24% over CY22-CY24. Though bullish on ABB's structural growth story, we think current valuations price in most positives, leading us to retain HOLD. We continue to value the stock at 65x P/E – in line with the five-year mean – but roll valuations forward to Dec'24E, yielding a revised TP of Rs 3,220 (earlier Rs 3,100).

Fig 5 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	CY23E	CY24E	CY23E	CY24E	CY23E	CY24E
Sales	1,02,044	1,23,098	1,02,044	1,23,098	0.0	0.0
EBITDA	10,423	13,379	10,423	13,379	0.0	0.0
PAT	8,267	10,513	8,288	10,558	(0.2)	(0.4)
EPS	39.0	49.6	39.1	49.8	(0.2)	(0.4)
EBITDAM (%)	10.2	10.9	10.2	10.9	0.0	0.0

Source: Company, BOBCAPS Research

Key risks

Downside risks to our estimates include:

- aggressive pricing strategies by peers,
- inability to scale up the motion segment further, and
- increase in royalty to the parent.

Upside risks include:

- sustained momentum in short-cycle orders translating into higher order wins, and
- above-anticipated margin expansion due to a surge in exports and services.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ABB India	ABB IN	7.9	3,080	3,220	HOLD
AIA Engineering	AIAE IN	3.2	2,798	3,300	BUY
Cummins India	KKC IN	5.3	1,595	1,600	HOLD
Hitachi Energy	POWERIND IN	1.5	3,004	3,500	BUY
KEC International	KECI IN	1.5	472	500	HOLD
Larsen & Toubro	LT IN	37.4	2,203	2,440	BUY
Siemens India	SIEM IN	13.5	3,129	3,500	BUY
Thermax	TMX IN	3.1	2,143	2,100	HOLD

Source: BOBCAPS Research, NSE | Price as of 13 Feb 2023

Financials

Income Statement

Y/E 31 Dec (Rs mn)	CY20A	CY21A	CY22E	CY23E	CY24E
Total revenue	58,210	69,340	85,675	1,02,044	1,23,098
EBITDA	2,712	5,567	9,619	10,423	13,379
Depreciation	1,204	1,027	1,047	1,213	1,266
EBIT	1,508	4,540	8,572	9,210	12,113
Net interest inc./(exp.)	169	107	131	131	131
Other inc./(exp.)	1,116	1,596	1,795	1,974	2,073
Exceptional items	0	0	0	0	0
EBT	2,456	6,029	10,235	11,053	14,054
Income taxes	597	1,597	3,372	2,785	3,542
Extraordinary items	(445)	(892)	(3,393)	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	2,304	5,325	10,256	8,267	10,513
Adjustments	(445)	(892)	(3,393)	0	0
Adjusted net profit	1,859	4,433	6,864	8,267	10,513

Balance Sheet

Y/E 31 Dec (Rs mn)	CY20A	CY21A	CY22E	CY23E	CY24E
Accounts payables	17,207	19,613	26,368	27,957	33,726
Other current liabilities	21,999	20,244	17,015	20,266	24,447
Provisions	0	0	0	0	0
Debt funds	133	181	121	0	0
Other liabilities	502	238	285	285	285
Equity capital	424	424	424	424	424
Reserves & surplus	35,640	40,028	48,970	55,924	65,059
Shareholders' fund	36,064	40,452	49,394	56,348	65,483
Total liab. and equities	75,905	80,727	93,182	1,04,856	1,23,941
Cash and cash eq.	22,066	26,877	36,422	30,913	36,605
Accounts receivables	16,950	16,950	20,930	24,929	30,072
Inventories	8,408	10,091	14,207	16,921	20,412
Other current assets	13,413	12,436	7,427	18,231	21,993
Investments	0	0	0	0	0
Net fixed assets	6,938	8,170	8,992	9,379	9,912
CWIP	749	769	693	825	995
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	7,382	5,435	4,512	3,659	3,952
Total assets	75,905	80,727	93,182	1,04,856	1,23,941

Cash Flows

Y/E 31 Dec (Rs mn)	CY20A	CY21A	CY22E	CY23E	CY24E
Cash flow from operations	3,182	6,492	7,419	(3,196)	9,332
Capital expenditures	(1,137)	(1,358)	(1,479)	(1,600)	(1,800)
Change in investments	0	(19,670)	18,399	(132)	(170)
Other investing cash flows	5,561	950	1,342	853	(292)
Cash flow from investing	4,424	(20,079)	18,262	(880)	(2,262)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(337)	(124)	(300)	(121)	0
Interest expenses	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flows	(1,186)	(1,144)	(1,102)	(1,314)	(1,377)
Cash flow from financing	(1,523)	(1,268)	(1,402)	(1,434)	(1,377)
Chg in cash & cash eq.	6,084	(14,855)	24,280	(5,510)	5,693
Closing cash & cash eq.	22,066	26,877	36,422	30,913	36,605

Per Share

Y/E 31 Dec (Rs)	CY20A	CY21A	CY22E	CY23E	CY24E
Reported EPS	10.9	25.1	48.4	39.0	49.6
Adjusted EPS	8.8	20.9	32.4	39.0	49.6
Dividend per share	4.8	5.2	5.2	6.2	6.5
Book value per share	170.2	190.9	233.1	265.9	309.0

Valuations Ratios

Y/E 31 Dec (x)	CY20A	CY21A	CY22E	CY23E	CY24E
EV/Sales	11.2	9.4	7.6	6.4	5.3
EV/EBITDA	240.6	117.2	67.8	62.6	48.8
Adjusted P/E	351.0	147.2	95.1	78.9	62.1
P/BV	18.1	16.1	13.2	11.6	10.0

DuPont Analysis

Y/E 31 Dec (%)	CY20A	CY21A	CY22E	CY23E	CY24E
Tax burden (Net profit/PBT)	75.7	73.5	67.1	74.8	74.8
Interest burden (PBT/EBIT)	162.8	132.8	119.4	120.0	116.0
EBIT margin (EBIT/Revenue)	2.6	6.5	10.0	9.0	9.8
Asset turnover (Rev./Avg TA)	76.1	88.5	98.5	103.1	107.6
Leverage (Avg TA/Avg Equity)	2.1	2.0	1.9	1.9	1.9
Adjusted ROAE	5.2	11.6	15.3	15.6	17.3

Ratio Analysis

Y/E 31 Dec	CY20A	CY21A	CY22E	CY23E	CY24E
YoY growth (%)					
Revenue	(20.4)	19.1	23.6	19.1	20.6
EBITDA	(48.9)	105.3	72.8	8.4	28.4
Adjusted EPS	(50.0)	138.4	54.8	20.5	27.2
Profitability & Return ratios (%)					
EBITDA margin	4.7	8.0	11.2	10.2	10.9
EBIT margin	2.6	6.5	10.0	9.0	9.8
Adjusted profit margin	3.2	6.4	8.0	8.1	8.5
Adjusted ROAE	5.2	11.6	15.3	15.6	17.3
ROCE	0.0	0.0	0.0	0.0	0.0
Working capital days (days)					
Receivables	106	89	89	89	89
Inventory	53	53	61	61	61
Payables	108	103	112	100	100
Ratios (x)					
Gross asset turnover	5.5	6.1	6.4	6.7	7.3
Current ratio	1.5	1.7	1.8	1.9	1.9
Net interest coverage ratio	8.9	42.4	65.4	70.2	92.4
Adjusted debt/equity	(0.6)	(0.7)	(0.7)	(0.5)	(0.6)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA (“US”) OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

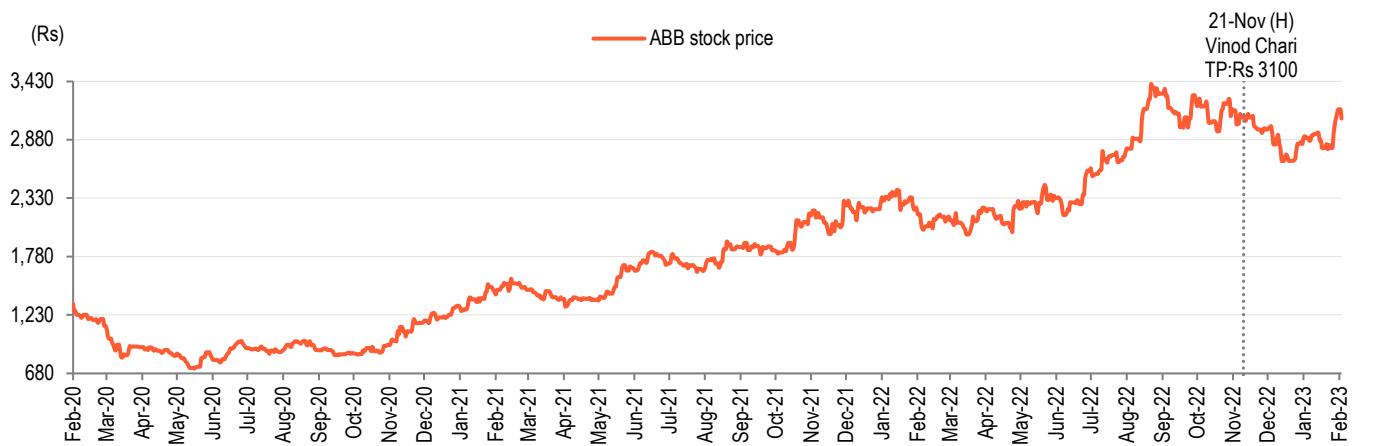
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): ABB INDIA (ABB IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS’s activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017. BOBCAPS CIN Number: U65999MH1996GOI098009.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction. We are not soliciting any action based on this material. It is for the general information of BOBCAPS’s clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company, except for Research Analyst Vinod Chari having 55 shares of Larsen & Toubro (LT IN). BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company or third party in the past 12 months in connection with research report/activities. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Other disclaimers

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an "as is" basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the "Losses") which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

Distribution into the United Kingdom ("UK"):

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd ("MSL") who is authorised and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom (MSL and its affiliates are collectively referred to as "**MAYBANK**"). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the "Order"), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as "relevant persons").

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

No distribution into the US:

This report will not be distributed in the US and no US person may rely on this communication.

Other jurisdictions:

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.