

Accumulate

Key Data

DATE	04.05.2023
Reco Price	3,600-3,660
Target	5,040
Sector	Capital Goods - Electrical Equipment
BSE Code	500002
NSE Code	ABB
EPS (CY22)	47.96
Face Value (Rs.)	2.00
Market Cap (Cr)	78,935.87
52-week High/Low (Rs)	3,754 /2,084.15

Source : NSE, BSE

Shareholding pattern (March-2023)

	%
Promoters	75.00
DII's	8.98
FII's	8.46
Public	7.56
Total	100.00

Source : NSE, BSE

Price Performance



Rebase to 100

ABB India Limited

Company Background

ABB India Limited (ABB) is an India-based global technology company. The Company's segments include Robotics and Discrete Automation, Motion, Electrification Products and Process Automation. Its Robotics and Discrete Automation segment provides value-added solutions in robotics, machine and factory automation. Its Motion segment provides products, solutions and related services that increase industrial productivity and energy efficiency. Its Electrification Products segment provides technology across the full electrical value chain from substation to the point of consumption. Its Process Automation segment provides products, systems and services designed to optimize the productivity of industrial processes. It serves various industries, such as oil and gas, chemicals and pharmaceuticals, metals and minerals, marine and turbocharging.

Outlook and Valuation

ABB India exploring opportunities for modernizing existing capacities and embracing digitalization. The business potential of tier 3 and 4 cities is getting a boost with the drive to electrify and build smart infra and transportation systems like electric coaches, metros, semi-high-speed railways, airports, and highway corridors. ABB's strong ordering traction in CY23 was driven by these segments viz. electronics, data centers, warehouse and logistics, rail and metro, food and beverage, and water and renewables.

ABB India offers sustainability, energy, and resource efficiency solutions to its customers in the electrification and automation domains. To bring in value, it plans to add more digital content to its product offerings. Going ahead, we expect the company's revenue to grow at a **CAGR of ~19%** over **CY22- CY25E**. Hence, we recommend ABB with a target price of **₹ 5040** based on at PE Multiple of **~72.5x of CY25E EPS of ₹ 69.5**; it's currently available at very lower valuation of **52.5x** which is far below Median PE valuation of last 5 years. It's available at very attractive valuation by looking at strong order inflow and earnings growth visibility in next 3 years. **Hence, we recommend ACCUMULATE rating for the long term.**

Financial Snapshot

Particulars	CY20	CY21	CY22	CY23E	CY24E	CY25E
Sales	5,820.95	6,934.00	8,567.53	10,598.03	12,505.68	14506.59
EBITDA	267.71	566.47	967.71	1,305.68	1,588.22	1,849.59
EBITDA Margin (%)	4.60%	8.17%	11.30%	12.32%	12.70%	12.75%
Net profit	219.22	519.71	1,016.23	1,048.26	1,267.70	1,472.70
PAT Margin (%)	3.77%	7.50%	11.86%	9.89%	10.14%	10.15%
EPS (Rs)	10.35	24.53	47.96	49.47	59.82	69.50

Source : Company, ACMIIL Research

Investment Idea

Company Business And Products

ABB India Limited is an integrated power equipment manufacturer supplying the complete range of engineering, products, solutions and services in areas of Automation and Power technology.

Business Segments

- A) **Electrification:** This segment provides technology across the full electrical value chain from substation to the point of consumption, enabling safer and more reliable power. A range of digital and connected innovations for low- and medium-voltage, including EV infrastructure, sensing and control, etc.
- B) **Motion:** This segment provides products, solutions and related services that increase industrial productivity and energy efficiency. Its motors, generators and drives provide power, motion and control for a wide range of automation applications.
- C) **Industrial Automation:** This segment provides products, systems and services designed to optimize the productivity of industrial processes. Solutions include turnkey engineering, control systems, measurement products, life cycle services, outsourced maintenance and industry specific products.
- D) **Robotics and Discrete Automation:** This segment provides value-added solutions in robotics, machine and factory automation.

Synergies with Parent

ABB India Limited is an integrated power equipment manufacturer supplying the complete range of engineering, products, solutions and services in areas of Automation and Power technology.

Company's Segment-wise certain Product Offerings

1. **Electrification:** Solar inverters, Distribution solution, Smart power, Smart building, Power conversion, wiring accessories, switchgear, cabling, sensing, E-mobility and control etc..
2. **Motion:** IEC LV Motors, NEMA Motors, Electrical motors, and generators in transportation and infrastructure etc.
3. **Process Automation:** Programmable logic controllers, control system, measurement, and analytics (Data Centre, Marine & Ports, Energy Industries, Process Industries, Chemical, Oil & Gas and Cement Industry).
4. **Robotics and Discrete Automation:** Used in AI (Artificial Intelligence), Machine automation, automobiles, and manufacturing.

Company at a glance

5	Manufacturing Locations	21	Sales Offices
25	Plants	750 +	Partners

Investment Rationale

- The Company has recently inaugurated smart instrumentation factory for the production of measurement and analytical devices, to meet increasing domestic demand. Order pipeline continues to remain strong in high-growth sectors such as data center, railways & Metro, F&B, renewables etc. on the back of 5G roll out, RBI's data localization norms, and cloud storage adoption. ABB's offerings in data center space includes UPS, MV & LV, Switchgear, LV components, Automation & Instrumentation, Motors, Drives, Digital Power Trains ensuring strong growth.
- We remain positive on ABB in long run given its diversified business model with focus on high growth segments, healthy exports outlook and organic as well as inorganic growth. Given robust enquiry pipeline, penetration in Tier 3 and 4 markets driving volume growth across businesses and focus on operational efficiencies.
- ABB India is the market leader in electrification and automation products. The company's strong market position is supported by access to the latest technologies, diverse product portfolio, cost-competitive operations, wide geographical reach, and strong market penetration through channel partners.
- Company's revenue increased 24% YoY in CY22 led by growth in sectors such as food & beverages, data centers, transportation, energy efficiency, and building automation. ABB also enhanced its presence in various segments, including AI-enabled city gas distribution networks, advanced process control for lime kilns, and energy efficiency projects with specialized drives and motors. Additionally, the company launched new products such as flame-proof motors for explosive atmospheres and smart electric metering and energy monitoring solutions.

Investment Idea

- ABB's robotics and discrete automation revenue grew 3% in CY22, and the company expects the demand for flexible robotic automation solutions to remain strong in the coming year. The automotive sector is likely to remain a major contributor, particularly with the increasing demand for electric vehicles.
- ABB registered 22% growth in electrification business revenue in CY22, aided by a stable business environment and focused efforts in key segments such as renewables, data centres, buildings, railways, and food & beverages. In addition to strong local demand, exports reached an all-time high with significant orders from countries such as Brazil, UAE and Oman. As per the company, the pace of capex-led recovery, especially in sectors such as transportation and construction, will be a determining factor for domestic growth momentum.
- Company has bagged most prestigious Indian government building project in the capital for Low Voltage portfolio and Medium Voltage Panels including Digital offering.
- Government's push for infrastructure and a slew of development projects ranging from construction of highways, rail lines and airports will continue to support company's overall growth prospects.
- The Company is In line with the local government's "Make in India" program, the state-of-the-art factory which aims at supporting local economy and meeting the growing demand for instrumentation devices.
- Aided by the progressive policies by the central government, ABB is poised to continue its growth in the coming year propelling business growth across most sectors. The increased infrastructure spending, rising exports, rapid digitization, and spill-over effects of geopolitical developments will likely aid this growth. Cement, Coal & Steel projects, and investments are on the rise. The chemical sector is also seeing good traction. Projects in downstream refinery and Water segments with EPC's will be key drivers for next couple of quarters.

Key Mile Stones achieved & Future focus areas of ABB:

- 30% of installed wind & Solar Projects are use ABB solutions.
- 80% of Metro deploy ABB Technology.
- 65% of Made in India car painted by ABB robotics.
- ABB is leader in electrification & Automation.
- Over 28% Hyper-scale data centres pan India uses ABB solution.
- Over 770 Indian Railway Locomotives run on ABB traction transformers.
- ABB Robotics Solution used for Manufacturing & assembly of various 5G enabled network & electrical devices.
- The company has solution with ABB robotics for the Passenger E-Vehicles, tools, design & stimulation.
- The company has traction under Vande-bharat Trains.
- The company has started IE3 motors which are the special motors supplying to EV Steering pumps.
- Automated system for GAS network which is getting set up across the cities to provide pipe gas to customers.
- Robotics solution for automotive applications which are getting for electrical & 5G equipment manufacturing.
- The company future focus are is Waste water management.
- The company want to explore both Organic & inorganic Opportunists for available cash on balance sheet of Rs 3942 crore for future growth in the areas of digitalization as a partner to serve both global & local.
- The company has recently acquired a company globally in EV charging space.
- ABB India received as ESG Company in CY 2022.

Industry Push for future growth drivers:

- Government Initiatives such as Jal Jeevan Mission, PMKSY, Namami Gange with an outlay of ~INR 4.5 trillion in next 4 years.
- Increasing demand for industrial process water to benefit company's vision towards sustainability.
- Insufficient wastewater network coverage and treatment infrastructure to give a concurrent push.
- Government Capex Outlay of 10 lakh crore in FY23/24 budget will lead to overall growth of the country.
- The allocation to Railways around 2.4 lakh crore in FY23/24 budget which is highest ever capital Outlay.
- The government continued fiscal support for digital infrastructure.
- The government various green growth initiatives such as national green hydrogen mission, Renewable energy , waste to way plant will be growth drivers for sector as well.

Investment Idea

- The Production Linked Incentive (PLI) and other policy measures are expected to continue driving growth in sectors that ABB has identified as having high-potential in the current environment, including data centers, electronics, warehouse and logistics, railways and metro, automotive, food and beverage, pharmaceuticals and healthcare, renewables, water, and wastewater, among others.

Segment-wise outlook

1. Electrification

The segment remains firmly committed to prioritizing high-growth areas such as renewables, data centres, buildings, e-mobility, rail, infrastructure, and food & beverages, while keeping a close watch on emerging segments like green hydrogen, among others. The trajectory of capital expenditure-led recovery, particularly in transportation and construction, will be a key factor in determining growth momentum going forward.

2. Motion

The segment is expected to benefit from a growing need for infrastructure improvement across several areas, including housing, water, digital technology, and transportation. The water & wastewater, F&B, HVAC, metals, and cement segments are also anticipated to contribute to growth.

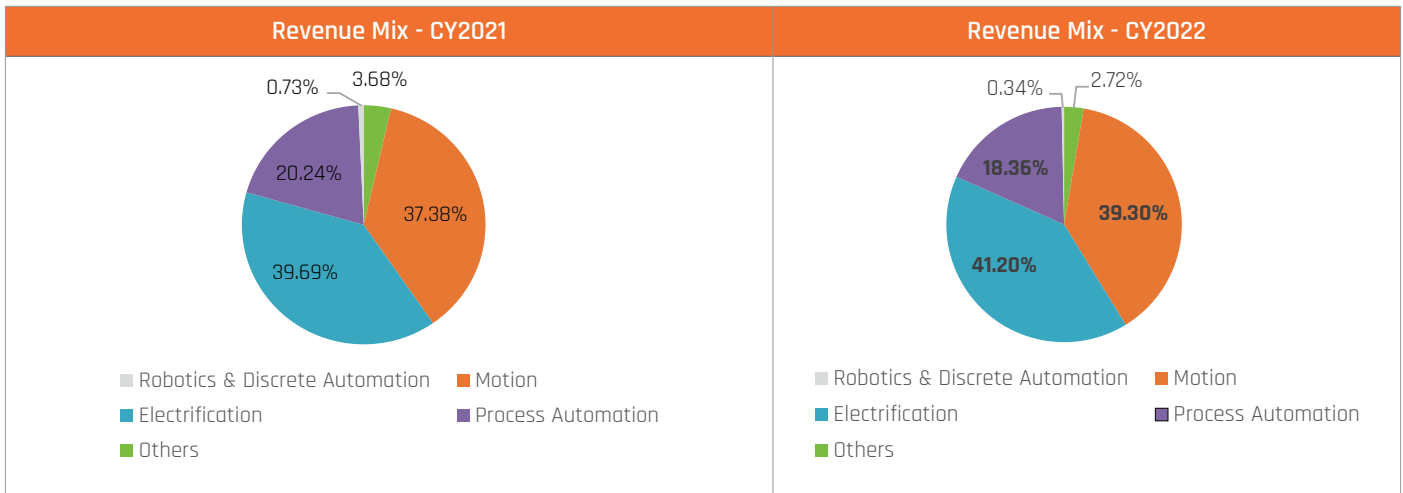
3. Process automation

Process automation business growth across most sectors is expected to continue. The cement, coal and steel sectors are experiencing an upswing in projects and investments, while the chemical sector is also seeing promising progress. Downstream refinery and water segments with EPCs will be key drivers for the next couple of quarters.

4. Robotics and discrete automation

The segment is expected to benefit from demand for electric vehicles. Meanwhile, the food and beverage, consumer goods, and electronics sectors are displaying promising signs of growth. Manufacturing activity in metals and plastics segments should remain stable, and there is good interest from educational universities for robotics lab and training centers.

Revenue Mix



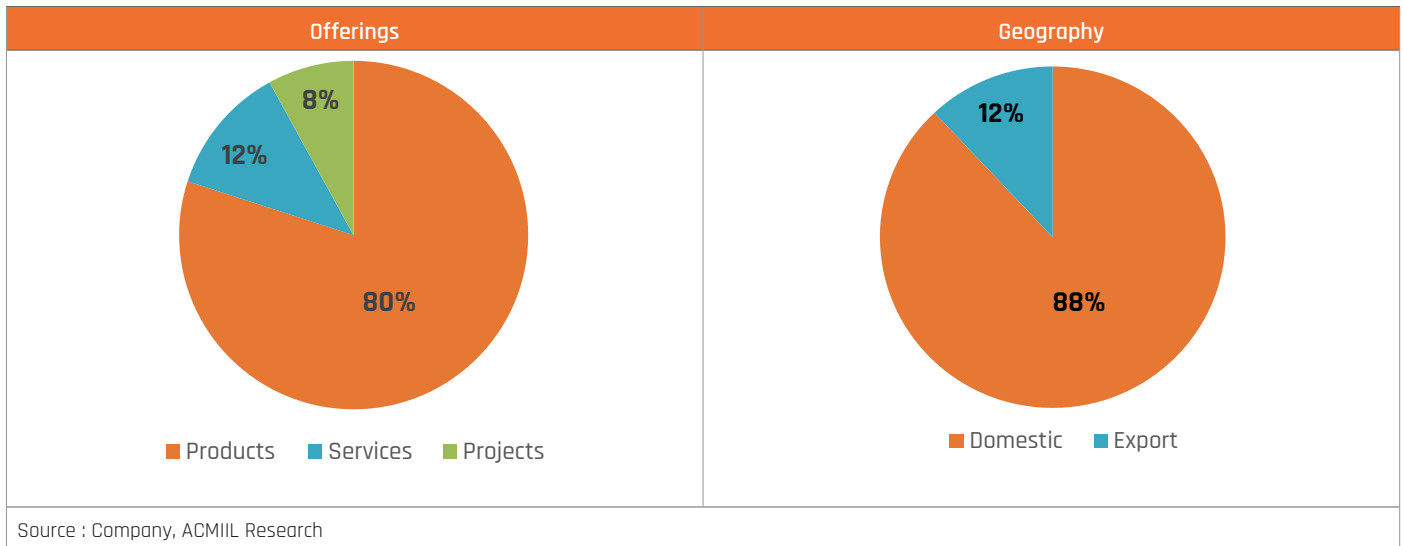
Source : Company, ACMIIL Research

Diverse businesses growing in leading segments

Focus	Enhance	Sustain
<ul style="list-style-type: none"> Electronics Data Centers Warehouse & Logistics 	<ul style="list-style-type: none"> Water & waste Water Food & Beverage Pharma & Healthcare Automotive Power Distribution Railways & Metro Renewable 	Cement <ul style="list-style-type: none"> Metals & Mining Oil, Gas and Chemicals Building & Infra Rubber & Plastics Marine & Ports Pulp & Paper Textile Conventional Power
High Growth	High-Moderate Growth	High-Moderate Growth

Investment Idea

Diversified Business Model



Key Q1CY23 Results Highlights:

- The Company reported PAT of Rs 245 Crore in first Quarter of CY2023 compared with Rs 149 Crore a year ago on a like-to-like basis, without any exceptional items. Operation EBITA margin at 11.4% in Q1CY23 compared with 8.5% in Q1CY22
- In Q1 2022, (January-March 2022) Rs 293 crore was disclosed as exceptional gain item in the financial results from the sale of the turbocharger business to its wholly-owned subsidiary
- Revenue of the company rose to Rs 2,411 crore in the first quarter of CY2023 compared with Rs 1,968 crore in the corresponding period of CY2022.
- Its cash position continues to remain robust at Rs 3,942 crore at the end of Q1 2023 vis-a-vis Rs 2,707 crore in Q1 2022.
- The Company expects to maintain PAT Margin of 10% moving forward with better product mix & Cost rationalization with the help of localization.
- During the quarter, the Company has accounted a warranty cost of Rs 23 Crores in the Motion business towards a potential quality issue with a supplier which requires rectification to full fill the customer obligation.
- The firm continued to focus on value chain improvements to address headwinds of possible commodity price changes and inflation.
- The year (2023) has begun on solid footing, continuing the growth momentum set last year across orders, revenue, and profit. The first quarter (January-March 2023) witnessed best-ever order intake of Rs 3125 crore as compared to Q1 of the last five years.
- ABB is a technology leader in electrification and automation, enabling a more sustainable and resource-efficient future.
- Its total Outstanding Order book (includes both Order back log & Fresh order) of around Rs 10742 crore at the end of Q1CY2023.
- The Company want to maintain order book above Rs 10000 crore in next 3 years giving more confidence of earning visibility moving forward in coming years.

Financial Performance

Particulars (in Cr.)	CY17	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E	CY25E
Sales	6,093.73	6,690.12	7,315.06	5,820.95	6,934.00	8,567.53	10,598.03	12,505.68	14,506.59
Total Expenses	5,668.97	6,223.89	6,777.08	5,553.24	6,367.53	7,599.82	9,292.36	10,917.46	12,657.00
Operating Profit	424.76	466.23	537.98	267.71	566.47	967.71	1,305.68	1588.22	1,849.59
EBITDA Margin (%)	6.97%	6.97%	7.35%	4.60%	8.17%	11.30%	12.32%	12.70%	12.75%
Other Income	266.85	338.59	25.78	170.42	266.41	505.80	215.00	226.00	239.00
Interest	62.08	60.22	28.19	24.62	18.69	15.40	15.00	14.00	13.00
Depreciation	101.23	92.76	90.40	120.36	102.70	104.70	108.00	110.00	112.00
Profit before tax	528.30	651.84	445.17	293.15	711.49	1,353.41	1,397.68	1,690.22	1,963.59
Tax	108.35	140.95	141.77	73.93	191.78	337.18	349.42	422.56	490.90
Tax %	20.51%	21.62%	31.85%	25.22%	26.95%	24.91%	25.00%	25.00%	25.00%
Net profit	419.95	510.89	303.40	219.22	519.71	1,016.23	1,048.26	1,267.70	1,472.70
Net profit margin (%)	6.89%	7.64%	4.15%	3.77%	7.50%	11.86%	9.89%	10.14%	10.15%
Number of Shares	21.19	21.19	21.19	21.19	21.19	21.19	21.19	21.09	21.19
EPS (Rs.)	19.82	24.11	14.32	10.35	24.53	47.96	49.47	59.82	69.50

Source : Company, ACMIIL Research

Risk & concerns:

- Rise in commodities prices may adversely affect scale of operations, profitability & margins of the company.
- Any kind of Supply chain disruption due to Geo-Political issue.
- GDP slowdown in India may hamper Industrial & Auto-motive growth.

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