

Estimate change	↔
TP change	↔
Rating change	↔

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Bloomberg	ABB IN
Equity Shares (m)	212
M.Cap.(INRb)/(USDb)	356.8 / 4.8
52-Week Range (INR)	1856 / 849
1, 6, 12 Rel. Per (%)	-6/8/53
12M Avg Val (INR M)	254

#### Financials & Valuations (INR b)

Y/E Dec	2020	2021E	2022E
Sales	58.2	70.4	85.3
EBITDA	3.7	5.7	7.9
PAT	2.5	4.3	6.2
EBITDA (%)	6.3	8.1	9.3
EPS (INR)	11.9	20.5	29.0
EPS Gr. (%)	(28.4)	72.6	41.8
BV/Sh. (INR)	170.2	186.8	207.1
<b>Ratios</b>			
Net D/E	(0.6)	(0.7)	(0.7)
RoE (%)	7.0	11.0	14.0
RoCE (%)	7.6	11.6	14.6
Payout (%)	40.4	30.0	30.0
<b>Valuations</b>			
P/E (x)	141.9	82.2	58.0
P/BV (x)	9.9	9.0	8.1
EV/EBITDA (x)	90.8	58.0	41.3
Div Yield (%)	0.3	0.4	0.5
FCF Yield (%)	0.6	1.6	1.5

#### Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	75.0	75.0	75.0
DII	7.1	7.3	11.1
FII	3.7	3.8	3.8
Others	14.2	13.9	10.2

FII Includes depository receipts

**CMP: INR1,684**
**TP: INR2,000 (+19%)**
**Buy**

#### In line result; order inflows indicate recovery is on track

##### Balance Sheet strength intact

- ABB's 2QCY21 result stood in line with our expectations. While the demand recovery was strong in Jun'21, it lost 3-3.5 weeks of operations, which is reflected in its performance. Capacity utilization has now scaled up to 80-85% across its different manufacturing locations, indicating that a gradual recovery is in progress. While order inflows moderated sequentially, it stood healthy across all segments, with the Systems and Services business witnessing a strong growth in orders after a couple of quarters. Order inflows across various end-markets grew at similar levels, with a recovery visible in the Automotive segment.
- The management has demonstrated commendable control over cash flows and improved its Balance Sheet further. Its cash balance now stands ~INR24b and constitutes ~64% of its net worth.
- ABB is a pure play on long-term industrial automation and 'Make in India' theme. It stands to benefit from the ongoing PLI-driven increase in manufacturing across the country. The short cycle nature of the business implies a very swift recovery, if the economy continues to improve. We maintain our Buy rating, with a TP of INR2,000 per share (60x Jun'23E EPS). We expect its premium valuations to sustain in the near term, given the growing opportunity in the Manufacturing space in India, and likely higher adoption of Automation Solutions in various industries.

##### Recovery witnessed across all segments

- Revenue grew 45% YoY to INR14.3b and was in line with our expectation. Gross margin improved slightly on a sequential basis to 33.6% v/s 33.3% in 1QFY21. On a YoY basis, gross margin is down 130bp. EBITDA quadrupled to INR947m and was in line with our expectation. EBITDA margin came in at 6.6%, slightly better than our expectation of 6.3%. Adjusted PAT came in at INR683m and was in line with our expectation.
- CFO stood at INR3b (v/s INR3.2b in CY20-end), with FCF at INR2.8b (v/s INR2b in CY20-end).
- Order inflows grew 41% YoY to INR16.9b, but were down 7% sequentially.** Order book stood at INR45.8b, down 2% YoY.
- Segmental highlights:** **a) Robotics and Motion:** Revenue grew 41% YoY to INR5.9b. PBIT margin expanded to 10.1%. **b) Electrification products:** Revenue grew 61% YoY to INR5.8b. PBIT margin stood at 6.8%. **c) Industrial Automation:** Revenue growth was tepid at 13% YoY. PBIT margin stood at 6%.

### Key highlights from the management commentary

- For ABB's products, pricing power accrues via: a) market share in the segment, and b) customer requirement. For instance, in end-markets like Data Center, Food and Beverages, and Power distribution, customers require best-in-class products and are ready to pay a premium. However, segments like Railways have no pricing power, owing to tendering, but offer healthy volumes.
- Intensity of competition was high in Water and the Waste Water segment. With specifications changing towards more efficient motors and higher reliability parts, competition has evened out with pricing power coming in.
- Export orders constitute 16%/12% of total order inflows/2QCY21 revenue. Services contributed ~18% to 2QCY21 revenue, with the contribution expected to further scale up on the back of robust orders.

### Valuation and view

ABB is a pure play on long-term industrial automation and 'Make in India' theme. It stands to benefit from the ongoing PLI-driven increase in manufacturing across the country. While the recent statewide lockdowns remain a concern, we expect a quick recovery in shorter cycle businesses. We maintain our **Buy** rating, with a TP of INR2,000 per share (60x Jun'23E EPS). We expect its premium valuations to sustain in the near term, given the growing opportunity in the Manufacturing space in India, and likely higher adoption of Automation Solutions in various industries.

Y/E December	(INR m)											
	CY20				CY21E				CY20	CY21E	MOSL	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	
<b>Sales</b>	<b>15,222</b>	<b>9,858</b>	<b>16,122</b>	<b>17,008</b>	<b>16,292</b>	<b>14,250</b>	<b>18,800</b>	<b>21,048</b>	<b>58,210</b>	<b>70,389</b>	<b>14,450</b>	<b>-1.4%</b>
Change (%)	-17.7	-42.9	-7.6	-12.9	7.0	44.6	16.6	23.8	-20.4	20.9	46.6	
<b>EBITDA</b>	<b>145</b>	<b>234</b>	<b>1,214</b>	<b>1,956</b>	<b>1,323</b>	<b>947</b>	<b>1,414</b>	<b>2,003</b>	<b>3,689</b>	<b>5,687</b>	<b>912</b>	<b>3.9%</b>
Change (%)	-90.0	-81.1	-1.6	41.3	812.1	304.2	16.5	2.4	-30.5	54.2	289.1	
As a percentage of Sales	1.0	2.4	7.5	11.5	8.1	6.6	7.5	9.5	6.3	8.1	6.3	
Depreciation	271	249	247	297	253	284	270	255	1,204	1,062	270	5.2%
Interest	34	38	28	69	32	16	30	72	169	150	40	-60.0%
Other Income	458	266	201	144	253	252	320	499	1,069	1,324	280	-10.0%
Extra-ordinary Income	456	10	(48)	(742)	466	19	-	-	(323)	485	-	
<b>PBT (Before Exceptionals)</b>	<b>298</b>	<b>214</b>	<b>1,140</b>	<b>1,733</b>	<b>1,291</b>	<b>900</b>	<b>1,434</b>	<b>2,175</b>	<b>3,385</b>	<b>5,799</b>	<b>882</b>	<b>2.0%</b>
Tax	108	62	285	416	343	216	361	538	870	1,460	222	-2.6%
Effective Tax Rate (%)	36.3	28.8	25.0	24.0	26.6	24.1	25.2	24.8	25.7	25.2	25.2	
<b>Reported PAT</b>	<b>646</b>	<b>163</b>	<b>807</b>	<b>576</b>	<b>1,413</b>	<b>703</b>	<b>1,073</b>	<b>1,636</b>	<b>2,192</b>	<b>4,825</b>	<b>660</b>	<b>6.5%</b>
<b>Adj. PAT</b>	<b>190</b>	<b>153</b>	<b>855</b>	<b>1,317</b>	<b>947</b>	<b>683</b>	<b>1,073</b>	<b>1,636</b>	<b>2,515</b>	<b>4,340</b>	<b>660</b>	<b>3.6%</b>
Change (%)	-78.7	-78.1	8.5	16.1	398.6	347.9	25.5	24.2	-28.4	72.6	332.5	

**Exhibit 1: Segmental breakup (INR m)**

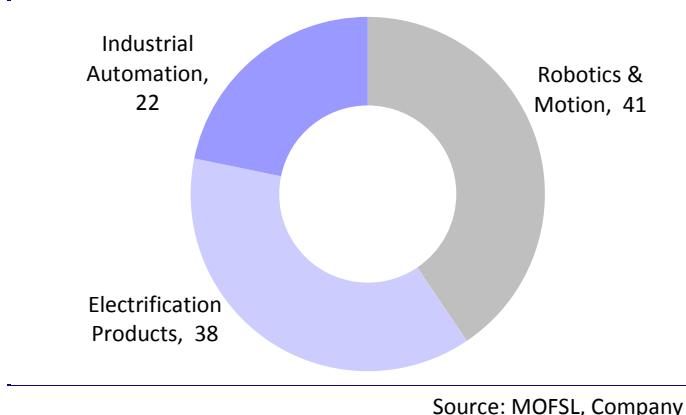
Segmental Analysis (INR m)	2QCY19	3QCY19	4QCY19	1QCY20	2QCY20	3QCY20	4QCY20	1QCY21	2QCY21
<b>Robotics and Motion</b>									
Revenue	6,699	6,661	7,500	6,099	4,178	6,741	6,915	6,791	5,894
Growth YoY (%)	8.9	12.5	7.4	-23.7	-37.6	1.2	-7.8	11.3	41.1
EBIT	557	595	711	169	330	738	1,225	949	595
EBIT Margin (%)	8.3	8.9	9.5	2.8	7.9	11.0	17.7	14.0	10.1
<b>Electrification Products</b>									
Revenue	7,344	7,094	8,331	6,229	3,578	5,945	6,472	6,330	5,766
Growth YoY (%)	13.7	24.2	11.4	-14.8	-51.3	-16.2	-22.3	1.6	61.1
EBIT	713	619	998	397	173	864	910	745	394
EBIT Margin (%)	9.7	8.7	12.0	6.4	4.8	14.5	14.1	11.8	6.8
<b>Process/Industrial Automation</b>									
Revenue	3,783	4,045	4,140	2,935	2,373	3,675	3,868	3,256	2,674
Growth YoY (%)	0.4	17.1	-19.7	-18.8	-37.3	-9.2	-6.6	10.9	12.7
EBIT	339	247	10	28	1	102	229	285	161
EBIT Margin (%)	9.0	6.1	0.2	1.0	0.0	2.8	5.9	8.8	6.0

Source: MOFSL, Company

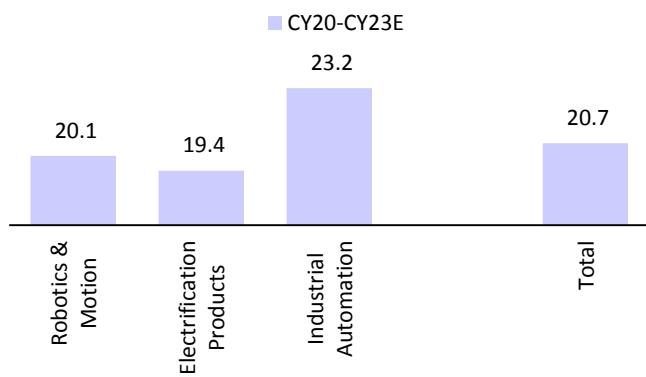
**Exhibit 2: Value ABB at INR2,000/share**

Valuation	Basis	P/E multiple (x)	Jun'23E (EPS)	Value/share
Continued business	Jun'23E	60	33.4	2,000
<b>Total</b>		<b>60</b>	<b>33.4</b>	<b>2,000</b>

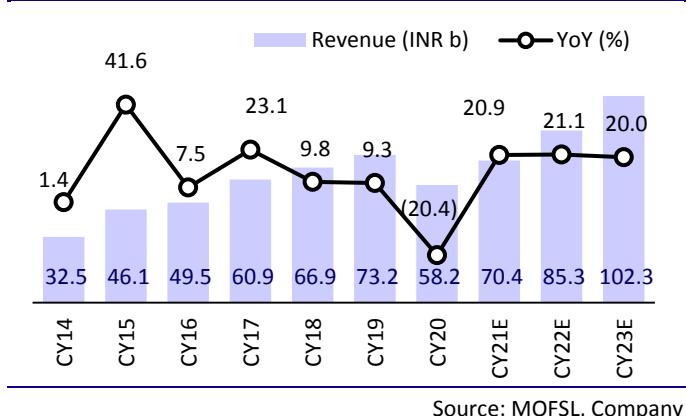
Source: MOFSL, Company

**Story in charts****Exhibit 3: Revenue breakup (CY20)**

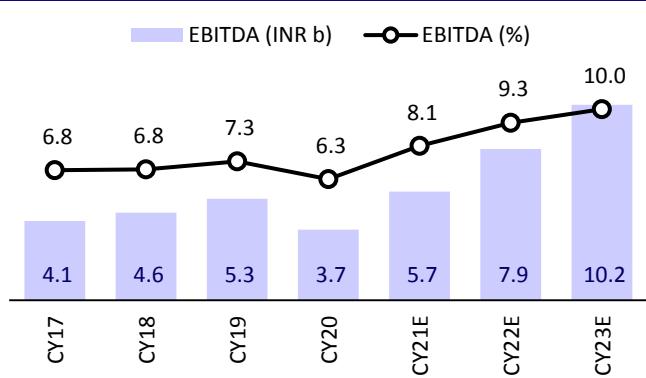
Source: MOFSL, Company

**Exhibit 4: Revenue CAGR assumption over CY20-23E**

Source: MOFSL, Company

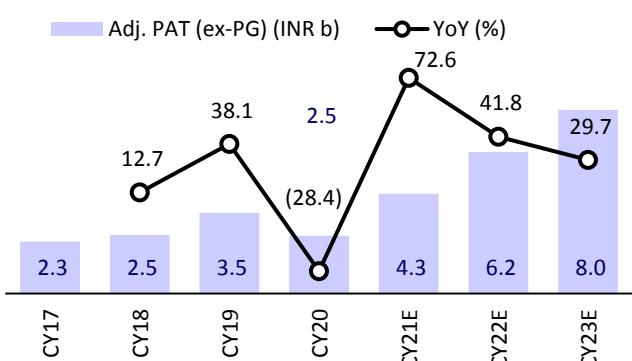
**Exhibit 5: Estimate ~21% revenue CAGR over CY20-23E**

Source: MOFSL, Company

**Exhibit 6: Expect EBITDA margin to expand by 270bp over CY19-23E**

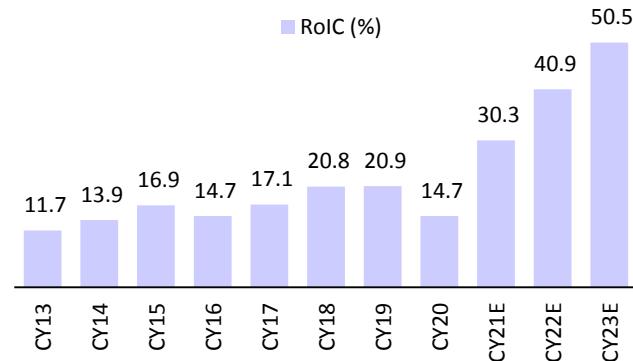
Source: MOFSL, Company

**Exhibit 7: Expect adjusted PAT CAGR of ~47% over CY20-23E, aided by a soft base in CY20**



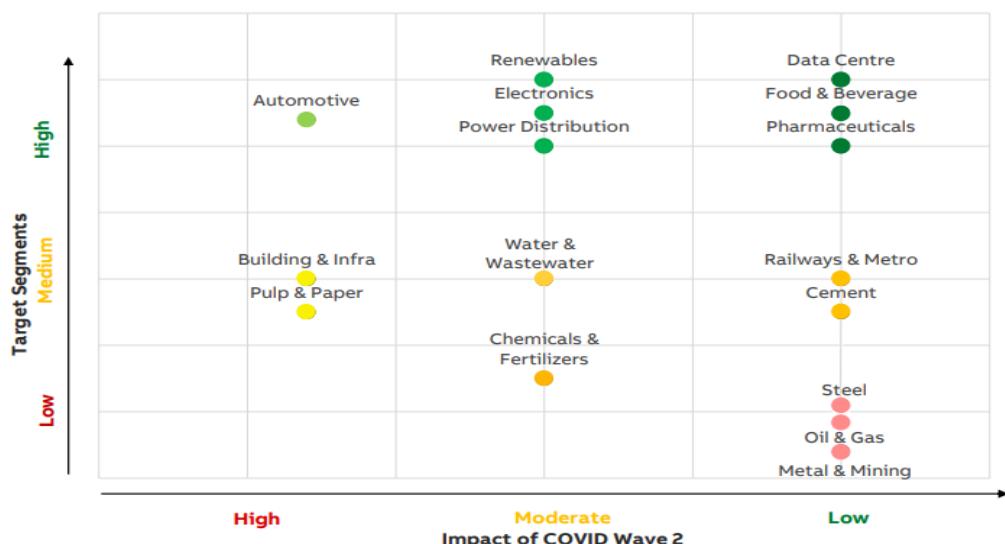
Source: MOFSL, Company

**Exhibit 8: Rising RoIC trend to help sustain premium valuations**



Source: MOFSL, Company

**Exhibit 9: Key target segments and impact of COVID-19 for ABB**



Source: MOFSL, Company

## Highlights from the management commentary

### Business update

- **ABB posted a strong recovery in Jun'21.** It lost 3-3.5 weeks of working time, which is reflected in revenue.
- Improved capacity utilization (80-85% at the blended level) led to better performance.



### Orders

- Orders for Systems and Services saw an uptick. The management expects additional orders.
- Green shoots are visible in the Automotive segment, especially among OEMs.

### Exports and services:

- Export orders constitute 16%/12% of total order inflows/2QCY21 revenue.
- **Services:** Orders are better, but with muted revenues. It contributed ~18% to 2QCY21 revenue (1HCY21: ~18.5%).

### Robotics and Motion

- **Higher revenue was seen in low voltage Motors, Drives, and Services business.**
- Automotive segments are showing early signs of a recovery. It is seeing **good order intake from the Two-Wheeler segment.**

### Electrification

- Low-voltage business saw strong growth. **Healthy order inflow was seen in Utility and Data Centers.**
- Lower volumes and commodity prices impacted margin.

### Industrial Automation

- Most legacy orders are now complete. ABB could take a couple of more quarters to completely exit these projects. **However, scale up of the Services business augurs well.**

### Outlook across end-markets

- Double-digit exposure to revenue and orders: Data Centers, F&B, Pharma, Renewables, Electronics, Power distribution, and Automobile.
- Higher double-digit exposure: Railways and Metro, Cement, Steel, Oil and Gas, Metals and Mining, Water and Waste Water, and Chemicals and Fertilizer.
- Low single-digit exposure: Building and Infra, and Pulp and Paper.
- **Pricing power accrues via:** a) market share in the segment, and b) customer requirement. For instance, in end-markets like Data Center, Food and Beverages, and Power distribution, customers require best-in-class products and are ready to pay a premium. However, segments like Railways have no pricing power, owing to tendering, but offer healthy volumes.

### Other key takeaways

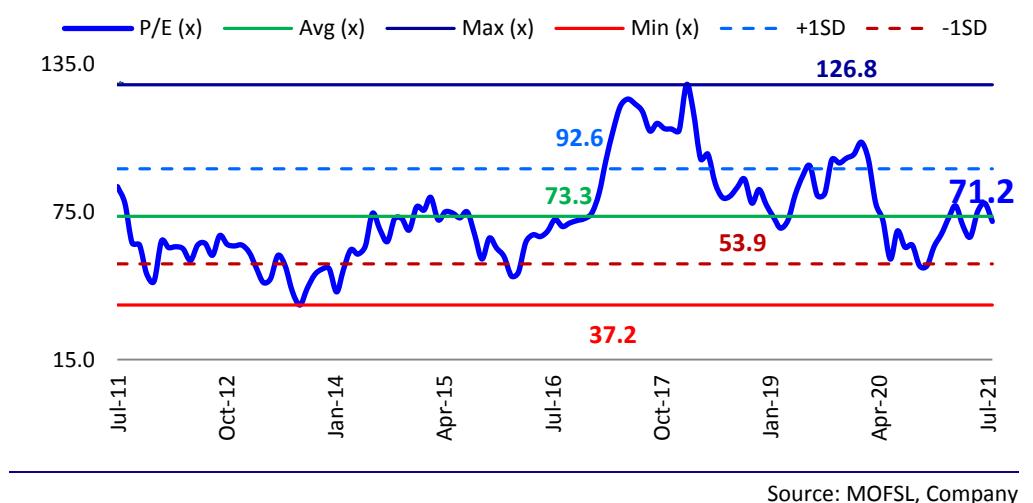
- It has received nod from the parent to look at organic and inorganic opportunities in the country.
- **Capex:** Improvement in Steel and Oil and Gas segment, with projects announcements taking place. It needs to monitor the pace of order awarding, which could decide the timeline of ordering for ABB.

### Valuation and view

- **Pure play on products and services rather than a direct play on capex:** After the demerger of the PWGR business, ABB's business is largely products and services oriented, with projects constituting ~9% of revenue in CY20. This makes it a pure-play on the Digitalization and Automation theme. At present, it is a beneficiary of a consumption revival, especially in end-markets of Auto and F&B.
- **Order inflows may be volatile given the shorter business cycle:** Given the major components of products and services, the residual business should be of a shorter cycle. Order inflows may be volatile over the near term, especially given the ups and downs in the economic cycle and recent disruption due to the COVID-19 outbreak. As expected, order inflows increased by ~41% YoY in 2Q on a low base (v/s 7% fall in 1QCY21). Order inflows are expected to recover as the economy gets back on track.

- **Expect strong earnings momentum to continue:** With a favorable base effect in CY20 – as the impact of COVID-led disruption was seen throughout the year –we expect an earnings CAGR of ~47% over CY20-23E.
- **Return ratios to improve:** We expect RoEs to improve to ~14% by CY22E, following the aberration in CY20. RoE is depressed due to a high cash balance. The improvement in the business model is better captured in RoIC calculations. We expect RoIC to improve to ~41% by CY22E from ~21% in CY19.
- **Maintain Buy:** As the economy gets back on track, post the second COVID wave, we expect a quick recovery in short-cycle businesses. We maintain our **Buy** rating, with a TP of INR2,000 per share (60x Jun'23E EPS). We expect its premium valuations to sustain in the near term, given the growing opportunity in the Manufacturing space in India, and likely higher adoption of Automation Solutions in various industries.

**Exhibit 10: ABB is trading at a one-year forward P/E of ~71x, at a slight discount to its long-term average multiple of ~73x**



## Financials and valuations

Income Statement						(INR m)
Y/E December	CY18	CY19	CY20	CY21E	CY22E	CY23E
<b>Net Sales</b>	<b>66,901</b>	<b>73,151</b>	<b>58,210</b>	<b>70,389</b>	<b>85,259</b>	<b>1,02,311</b>
Change (%)	9.8	9.3	-20.4	20.9	21.1	20.0
<b>EBITDA</b>	<b>4,578</b>	<b>5,312</b>	<b>3,689</b>	<b>5,687</b>	<b>7,915</b>	<b>10,223</b>
% of Net Sales	6.8	7.3	6.3	8.1	9.3	10.0
Depreciation	928	904	1,204	1,062	1,174	1,236
Interest	539	214	169	150	120	120
Other Income	840	943	1,069	1,324	1,603	1,802
Extra-ordinary Items (net)	2,567	-476	-323	485	0	0
<b>PBT</b>	<b>6,518</b>	<b>4,661</b>	<b>3,063</b>	<b>6,285</b>	<b>8,224</b>	<b>10,668</b>
Tax	1,410	1,627	870	1,460	2,070	2,685
Rate (%)	35.7	31.7	25.7	25.2	25.2	25.2
<b>PAT</b>	<b>5,109</b>	<b>3,034</b>	<b>2,192</b>	<b>4,825</b>	<b>6,154</b>	<b>7,983</b>
<b>Adjusted PAT</b>	<b>2,542</b>	<b>3,510</b>	<b>2,515</b>	<b>4,340</b>	<b>6,154</b>	<b>7,983</b>
Change (%)	12.7	38.1	-28.4	72.6	41.8	29.7
Balance Sheet						(INR m)
Y/E December	CY18	CY19	CY20	CY21E	CY22E	CY23E
Share Capital	424	424	424	424	424	424
Reserves	39,649	34,777	35,640	39,163	43,471	49,059
<b>Net Worth</b>	<b>40,073</b>	<b>35,201</b>	<b>36,064</b>	<b>39,587</b>	<b>43,895</b>	<b>49,483</b>
Loans	20	71	-	-	-	-
Net Deferred Tax Liability	(1,150)	(1,103)	(1,172)	(1,172)	(1,172)	(1,172)
<b>Capital Employed</b>	<b>38,944</b>	<b>34,168</b>	<b>34,892</b>	<b>38,415</b>	<b>42,723</b>	<b>48,311</b>
Gross Fixed Assets	11,419	10,211	11,296	12,296	13,796	15,296
Less: Depreciation	2,488	2,794	3,469	4,531	5,705	6,941
<b>Net Fixed Assets</b>	<b>8,931</b>	<b>7,417</b>	<b>7,827</b>	<b>7,766</b>	<b>8,091</b>	<b>8,355</b>
Capital WIP	831	595	749	749	749	749
Investments	2	1	1	1	1	1
<b>Curr. Assets</b>	<b>58,628</b>	<b>65,176</b>	<b>66,156</b>	<b>67,505</b>	<b>79,431</b>	<b>93,865</b>
Inventory	9,279	8,617	8,408	7,714	9,343	11,212
Debtors	16,869	19,475	16,950	17,356	21,023	25,227
Cash and Bank Balance	14,751	15,976	22,066	26,718	30,028	34,581
Loans and Advances	263	3,770	270	289	350	420
Other current Assets	17,468	17,337	18,463	15,428	18,687	22,424
<b>Current Liab. and Prov.</b>	<b>29,448</b>	<b>39,020</b>	<b>39,841</b>	<b>37,605</b>	<b>45,549</b>	<b>54,659</b>
Creditors	18,745	19,016	17,207	18,320	22,191	26,629
Other Liabilities	8,046	17,140	19,733	16,392	19,855	23,826
Provisions	2,657	2,865	2,901	2,893	3,504	4,205
<b>Net Current Assets</b>	<b>29,180</b>	<b>26,156</b>	<b>26,315</b>	<b>29,900</b>	<b>33,882</b>	<b>39,206</b>
<b>Application of Funds</b>	<b>38,944</b>	<b>34,168</b>	<b>34,892</b>	<b>38,415</b>	<b>42,723</b>	<b>48,311</b>

## Financials and valuations

### Ratios

Y/E December	CY18	CY19	CY20	CY21E	CY22E	CY23E
<b>Basic (INR)</b>						
EPS	<b>12.0</b>	<b>16.6</b>	<b>11.9</b>	<b>20.5</b>	<b>29.0</b>	<b>37.7</b>
Growth	12.7	38.1	-28.4	72.6	41.8	29.7
Cash EPS	16.4	20.8	17.5	25.5	34.6	43.5
Book Value	189.1	166.1	170.2	186.8	207.1	233.5
DPS	4.4	4.8	4.8	6.1	8.7	11.3
Payout (incl. Div. Tax)	36.9	29.1	40.4	30.0	30.0	30.0
<b>Valuation (x)</b>						
P/E	140.4	101.7	141.9	82.2	58.0	44.7
Cash P/E	102.9	80.8	96.0	66.1	48.7	38.7
EV/EBITDA	74.7	64.2	90.8	58.0	41.3	31.5
EV/Sales	5.1	4.7	5.8	4.7	3.8	3.1
Price/Book Value	8.9	10.1	9.9	9.0	8.1	7.2
Dividend Yield (%)	0.3	0.3	0.3	0.4	0.5	0.7
<b>Profitability Ratios (%)</b>						
RoE	12.7	10.0	7.0	11.0	14.0	16.1
RoCE	14.4	10.7	7.6	11.6	14.6	16.7
RoIC	20.8	20.9	14.7	30.3	40.9	50.5
<b>Turnover Ratios</b>						
Debtors (Days)	92	97	106	90	90	90
Inventory (Days)	51	43	53	40	40	40
Creditors (Days)	102	95	108	95	95	95
Asset Turnover (x)	1.7	2.1	1.7	1.8	2.0	2.1
<b>Leverage Ratio</b>						
Net Debt/Equity (x)	(0.4)	(0.5)	(0.6)	(0.7)	(0.7)	(0.7)

### Cash Flow Statement

Y/E December	CY18	CY19	CY20	CY21E	CY22E	CY23E	(INR m)
<b>PBT before EO Items</b>							
	<b>3,951</b>	<b>4,661</b>	<b>3,063</b>	<b>5,799</b>	<b>8,224</b>	<b>10,668</b>	
Add: Depreciation	1,458	1,040	1,204	1,062	1,174	1,236	
Interest	767	291	169	150	120	120	
Less: Direct taxes paid	2,248	1,738	1,033	1,460	2,070	2,685	
(Inc.)/Dec. in WC	(1,641)	2,846	(130)	1,067	(672)	(771)	
<b>CF from operations</b>	<b>2,287</b>	<b>7,100</b>	<b>3,273</b>	<b>6,619</b>	<b>6,776</b>	<b>8,568</b>	
Others	3,967	(431)	1,610	485	-	-	
<b>CF from Oper. incl. EO Items</b>	<b>6,255</b>	<b>6,669</b>	<b>4,883</b>	<b>7,104</b>	<b>6,776</b>	<b>8,568</b>	
(Inc.)/Dec. in FA	(2,437)	(1,374)	(1,137)	(1,000)	(1,500)	(1,500)	
<b>Free Cash Flow</b>	<b>(149)</b>	<b>5,726</b>	<b>2,136</b>	<b>5,619</b>	<b>5,276</b>	<b>7,068</b>	
(Pur.)/Sale of Investments	3,874	(2,533)	3,866	-	-	-	
<b>CF from investments</b>	<b>1,437</b>	<b>(3,907)</b>	<b>2,729</b>	<b>(1,000)</b>	<b>(1,500)</b>	<b>(1,500)</b>	
(Inc.)/Dec. in Net Worth	-	-	-	-	-	-	
(Inc.)/Dec. in Debt	(5,935)	(19)	(337)	-	-	-	
Less: Interest Paid	(799)	(291)	(169)	(150)	(120)	(120)	
Dividend Paid	(1,124)	(1,226)	(1,017)	(1,302)	(1,846)	(2,395)	
<b>CF from Fin. Activity</b>	<b>(7,858)</b>	<b>(1,537)</b>	<b>(1,523)</b>	<b>(1,452)</b>	<b>(1,966)</b>	<b>(2,515)</b>	
<b>Inc./Dec. in Cash</b>	<b>(166)</b>	<b>1,225</b>	<b>6,090</b>	<b>4,652</b>	<b>3,310</b>	<b>4,554</b>	
Add: Beginning Balance	14,917	14,751	15,976	22,066	26,718	30,028	
<b>Closing Balance</b>	<b>14,751</b>	<b>15,976</b>	<b>22,066</b>	<b>26,718</b>	<b>30,028</b>	<b>34,581</b>	

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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