

HOLD

TP: Rs 7,600 | ▲ 6%

ABB INDIA

| Capital Goods

| 13 May 2024

Margins swell; outlook strong

- Strong topline growth of 27.8% with gross margin above 40% after 6 years; EBITDA margin expands 650bps YoY to 18.3% in Q1
- Order inflows stand strong in Q1 at Rs 36.1bn with backlog of Rs 89.3bn; base orders grew 3%; large orders at Rs 3.7bn in Q1
- We raise CY24E/CY25E EPS by 11%/25% to bake in the strong quarter and outlook; raise target P/E to 80x with a revised TP of Rs 7,600

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Strong quarter across the board: ABB posted strong topline growth of 27.8% YoY in Q1CY24 with aggregate revenues of Rs 30.8bn. This was driven by strong order conversion across all divisions. Exports contributed ~8% of revenues during the quarter. Direct sales contributed 59% and sales through partners 41%. Gross margin expanded 390bps YoY to 40.2% and EBITDA margin expanded 650bps YoY to 18.3%. Margins improved due to lower material costs, better operating leverage and cost optimisation. Adjusted PAT came in at Rs 4.6bn, +87.5% YoY. At the end of Q1CY24, ABB had a cash balance of Rs 50.4bn.

Order inflow accelerates: During the quarter, the company received orders amounting to Rs 36.1bn, +15.4% YoY, the highest ever in Q1 in the last five years. This resulted in a closing order book of Rs 89.3bn, +24.6% YoY. Base orders continued their momentum with 3% growth YoY to Rs 32.3bn, with large orders in the data centres business. Currently, 40% of the order book includes long-term projects, largely from the Railways and process automation. The quarter had a healthy mix of long and short cycle orders, with export orders growing 23% YoY.

Energy efficiency to boost orders: As energy efficiency norms tighten, ABB expects the use of IE3 (premium efficiency) and IE4 (super premium efficiency) power drives in motors to increase, and to bolster growth. Currently, 15-20% of motors in the industry use power drives, which management expects to increase as penetration of power drives rises.

Strong outlook, valuations obstruct upside: ABB gave a strong performance in Q1CY24, and we expect continued momentum going forward. We raise our CY24E/CY25E EPS by 11.5%/24.9% to bake in a good quarter and a strong outlook. We value the stock at a target P/E of 80x (70x earlier) – a 10% premium to its 5Y mean. Upon rolling over to Mar'26E, we raise our TP to Rs 7,600 (from Rs5,500). The stock has run up over 50% since the last quarterly earnings, and we maintain HOLD on limited upside.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ABB IN/Rs 7,178
Market cap	US\$ 18.5bn
Free float	25%
3M ADV	US\$ 39.2mn
52wk high/low	Rs 7,218/Rs 3,805
Promoter/FPI/DII	75%/4%/9%

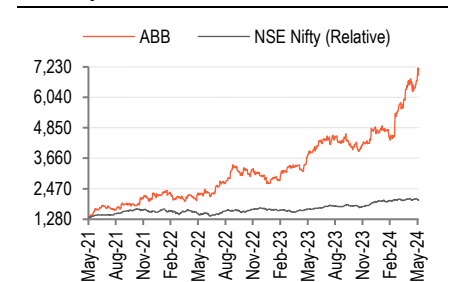
Source: NSE | Price as of 10 May 2024

Key financials

Y/E 31 Dec	CY23A	CY24E	CY25E
Total revenue (Rs mn)	1,04,465	1,37,272	1,47,113
EBITDA (Rs mn)	14,898	20,460	23,876
Adj. net profit (Rs mn)	12,482	16,217	18,819
Adj. EPS (Rs)	58.9	76.5	88.8
Consensus EPS (Rs)	58.9	69.0	81.3
Adj. ROAE (%)	22.9	24.3	22.7
Adj. P/E (x)	121.9	93.8	80.8
EV/EBITDA (x)	102.1	74.3	63.7
Adj. EPS growth (%)	81.9	29.9	16.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q1CY24	Q1CY23	YoY (%)	Q4CY23	QoQ (%)
Revenue	30,804	24,112	27.8	27,575	11.7
EBITDA	5,652	2,853	98.1	4,172	35.5
EBITDA Margin (%)	18.3	11.8	652bps	15.1	322
Depreciation	314	275		329	
Interest	38	22		82	
Other Income	871	723		776	
PBT	6,171	3,279	88.2	4,537	36.0
Tax	1,575	827		1,085	
Adjusted PAT	4,596	2,452	87.5	3,452	33.1
Exceptional item					
Reported PAT	4,596	2,452	87.5	3,452	33.1
Adj. PATM (%)	14.9	10.2	475bps	12.5	240
EPS (Rs)	21.7	11.6	87.5	16.3	33.1

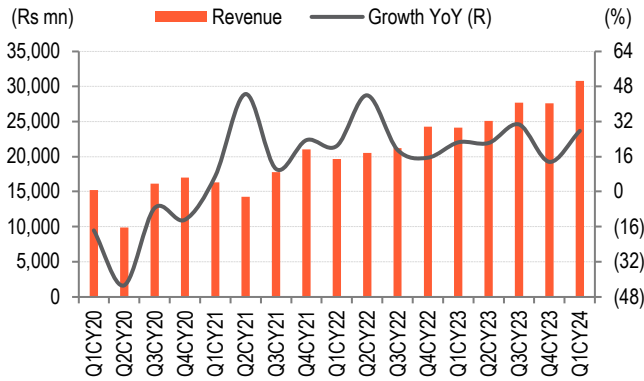
Source: Company, BOBCAPS Research

Fig 2 – Segment-wise performance

Particulars (Rs mn)	Q1CY22	Q2CY22	Q3CY22	Q4CY22	Q1CY23	Q2CY23	Q3CY23	Q4CY23	Q1CY24
Revenue									
Robotics & Discrete Automation	647	482	577	628	675	1,225	1,183	1,077	1,092
Growth YoY (%)	34.9	(45.9)	(9.8)	15.4	4.4	154.5	105.2	71.5	61.6
Motion	7,157	8,339	8,822	9,353	9,722	9,173	9,810	9,146	10,128
Growth YoY (%)	13.4	66.6	26.0	23.1	35.8	10.0	11.2	(2.2)	4.2
Electrification Products	8,610	8,378	8,809	9,500	9,994	10,056	10,420	11,302	12,963
Growth YoY (%)	36.0	45.3	27.1	11.9	16.1	20.0	18.3	19.0	29.7
Process Automation	3,421	3,704	3,499	5,108	4,202	5,096	6,756	6,307	7,263
Growth YoY (%)	5.1	38.5	3.0	8.5	22.8	37.6	93.1	23.5	72.9
EBIT Margin									
Robotics & Discrete Automation	57	61	73	102	107	155	142	127	168
EBIT Margin (%)	8.8	12.6	12.6	16.3	15.8	12.6	12.0	11.8	15.4
Motion	954	738	931	1,502	1,168	1,329	1,899	1,619	2,163
EBIT Margin (%)	13.3	8.9	10.6	16.1	12.0	14.5	19.4	17.7	21.4
Electrification Products	1,180	963	1,280	1,455	1,946	1,640	2,011	2,148	3,078
EBIT Margin (%)	13.7	11.5	14.5	15.3	19.5	16.3	19.3	19.0	23.7
Process Automation	354	402	350	900	389	568	983	810	1,181
EBIT Margin (%)	10.4	10.8	10.0	17.6	9.2	11.1	14.5	12.8	16.3

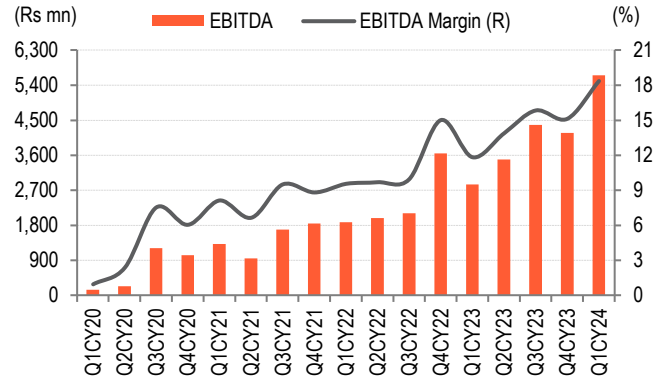
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth



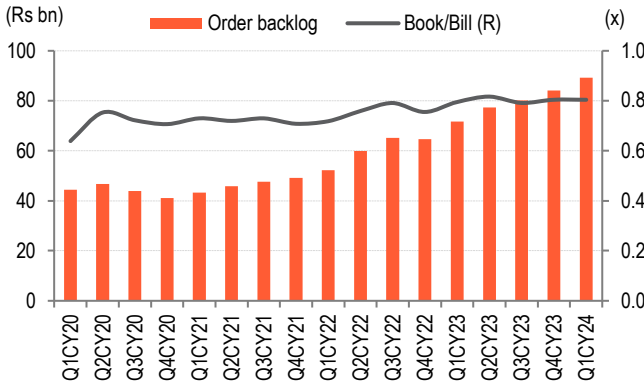
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth



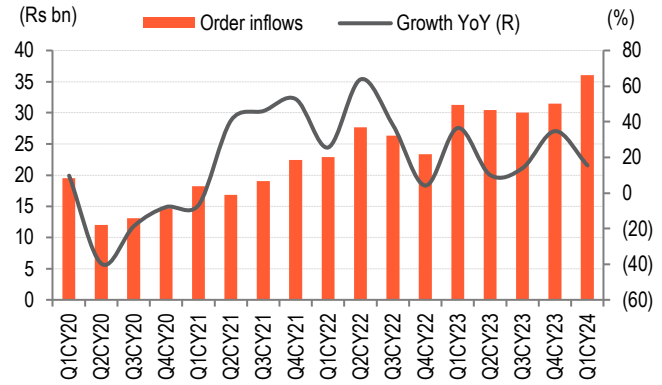
Source: Company, BOBCAPS Research

Fig 5 – Order backlog



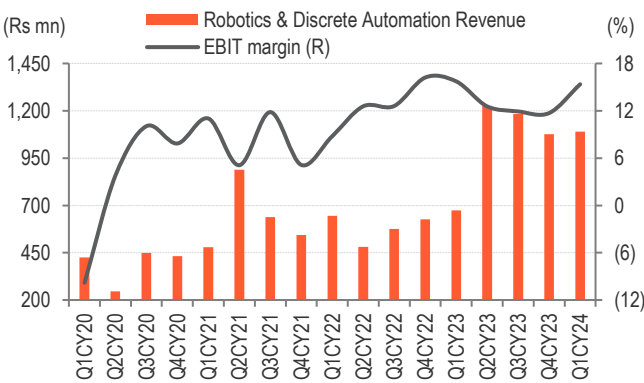
Source: Company, BOBCAPS Research

Fig 6 – Order inflow



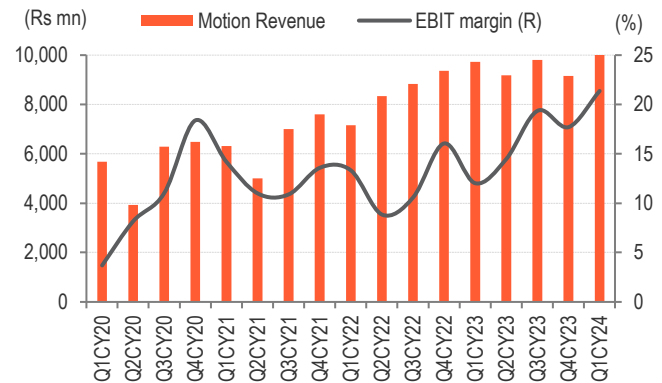
Source: Company, BOBCAPS Research

Fig 7 – Robotics & discrete automation performance



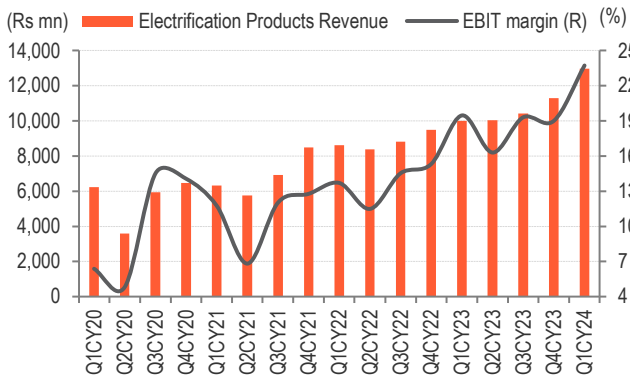
Source: Company, BOBCAPS Research

Fig 8 – Motion business performance



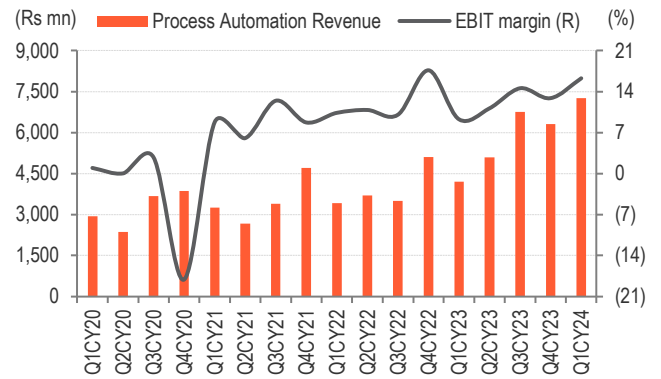
Source: Company, BOBCAPS Research

Fig 9 – Electrification business performance



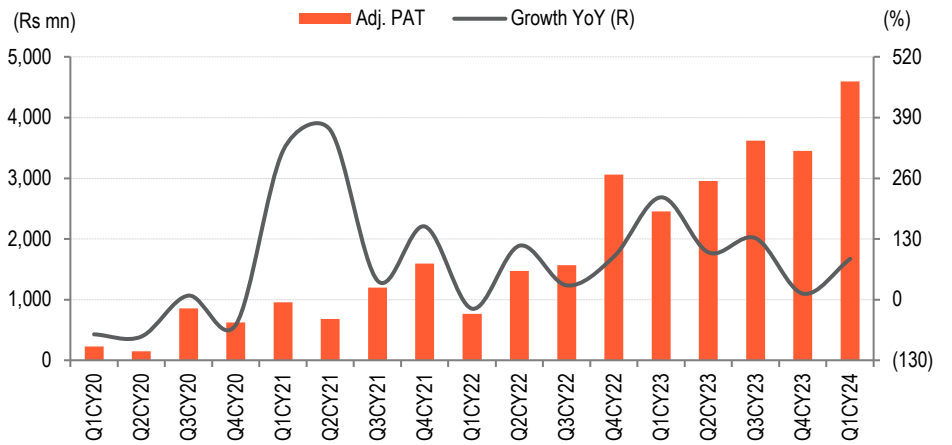
Source: Company, BOBCAPS Research

Fig 10 – Process automation performance



Source: Company, BOBCAPS Research

Fig 11 – Net profit growth



Source: Company, BOBCAPS Research

Earnings call highlights

Operational highlights

- **Profitability:** Margins improved significantly during the quarter, largely due to high contribution from services and exports, benefits of localisation and execution of better margin orders. Personnel costs rose ~18% YoY in Q1, largely due to salary revisions and increase in employee count. Other expenses, which contributed to 14.7% of sales during Q1CY24, are largely volume linked. Profit included a one-time tax return of Rs 100mn during the quarter, as opposed to a one-time warranty cost in Q1CY23. Services generate an EBITDA margin higher than ~25%.
- **Order inflows:** The Rs 36.1bn order inflows during the quarter included base orders of Rs 32.3bn and large orders of Rs 3.7bn. Large orders comprised orders in motion, data centres for electrification, and process automation. In robotics, which is a specialised segment, management expects cyclicity in orders as local manufacturers upgrade their production lines periodically.
- **Capex and capacity expansion:** ABB has incurred ~Rs 1.8bn-2bn in capex on expansion over the last 2 years, and expects to continue investing in a similar manner. Expansions are expected to be in electronics, process automation and motion segments.
- **Energy efficiency:** With a shift to energy efficiency across industries, management expects power drives to continue momentum, and does not see a dampener in the near future. Going forward, as the government tightens energy efficiency norms, ABB expects IE3 and IE4 motors to pick up. ~15-20% of motors currently have power drives installed, and ABB expects penetration to increase going forward.
- **Elections:** The company did not witness much impact on ordering from the elections during the quarter, and is cautiously optimistic of any post elections impact on order inflows.
- **Other businesses:** Top contributors in the other businesses include data centres, Railways and metros and automotive (electric vehicles) sectors.
- **Newer technologies:** ABB is well placed in newer technologies like hydrogen and ammonia production, powering of electrolysers, and ethanol blending.

Electrification

- **Segment performance:** The segment's revenue grew 29.7% YoY, with EBIT margin expansion of 420bps YoY to 23.7%. This was on the back of healthy execution of system and product orders, and higher margin orders. There was no major forex impact.
- **Orders:** Order inflows grew 34% YoY, with order backlog rising to Rs 24.7bn at the end of Q1. The segment saw growth from data centres and smart building, along with expansion in OEMs in Tier-2 and -3 cities. ABB also received demand from railways for propulsion technology, and from metros for electrification. ABB has been a key contributor to electrification in the Indian Railways, and this is accelerating in the metros as well.

Motion

- **Segment performance:** The Motion segment grew 4% on topline with EBIT margin expanding 940bps to 21.4% in Q1CY24. Steady backlog led to stable growth in the segment. Margin was better due to higher proportion of services in the topline, with a healthier cost structure.
- **Orders:** Order inflow was largely flattish with backlog rising to Rs 36.8bn. This was largely due to delay in system orders and pricing pressure in standard products.

Process Automation

- **Segment performance:** The segment grew 72.9% YoY on topline, with EBIT margin expansion of 710bps YoY to 16.3% during the quarter. This was largely due to high order execution, healthy contribution from services and exports businesses and optimisation of value chain costs in the project revenue stream.
- **Orders:** Order inflows grew 16.8% YoY led by power, metals and mining, oil and gas, and logistics sectors. Order backlog was largely flat at Rs 26.9bn as the quarter saw high execution.

Robotics and Discrete Automation

- **Segment performance:** The segment grew 62% on topline, though EBIT margin contracted 40bps YoY to 15.4% during the quarter. ABB executed industry and automotive orders during the quarter, with good momentum in execution of book and bill revenues.
- **Orders:** Order inflows were flattish during the quarter, with backlog declining 24% YoY to Rs 2.3bn at the end of Q1CY24. ABB also saw good uptake in F&B (food and beverage industry) orders. Robotics is seeing increased applications in manufacture of electronics for scaling in production.

Valuation methodology

ABB has given a strong performance in Q1CY24, and we expect continued momentum going forward. We raise our CY24E/CY25E EPS by 11.5%/24.9% to bake in a good quarter and strong outlook. We value the stock at a target P/E of 80x (70x earlier) – a 10% premium to its 5Y mean. Upon rolling over to Mar'26E, we increase our TP to Rs 7,600 (from Rs 5,500 earlier). The stock has run up over 50% since the last quarterly earnings, and we maintain HOLD on a limited upside.

Fig 12 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	CY24E	CY25E	CY24E	CY25E	CY24E	CY25E
Sales	1,37,272	1,47,113	1,30,241	1,39,540	5.4	5.4
EBITDA	20,460	23,876	18,038	18,658	13.4	28.0
PAT	16,217	18,819	14,547	15,064	11.5	24.9
EPS	76.5	88.8	68.6	71.1	11.5	24.9
EBITDAM (%)	14.9	16.2	13.9	13.4	110bps	290bps

Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

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

Key downside risks are:

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

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ABB India	ABB IN	18.5	7,178	7,600	HOLD
AIA Engineering	AIAE IN	4.3	3,764	4,000	HOLD
Hitachi Energy	POWERIND IN	4.5	8,761	4,200	SELL
KEC International	KECI IN	2.3	724	860	BUY
Larsen & Toubro	LT IN	55.9	3,271	4,200	BUY

Source: BOBCAPS Research, NSE | Price as of 10 May 2024

Financials

Income Statement

Y/E 31 Dec (Rs mn)	CY21A	CY22A	CY23A	CY24E	CY25E
Total revenue	69,340	85,675	1,04,465	1,37,272	1,47,113
EBITDA	5,567	9,619	14,898	20,460	23,876
Depreciation	1,027	1,047	1,199	1,317	1,382
EBIT	4,540	8,572	13,699	19,143	22,494
Net interest inc./(exp.)	107	131	127	177	186
Other inc./(exp.)	1,596	1,795	3,017	2,715	2,851
Exceptional items	0	0	0	0	0
EBT	6,029	10,235	16,589	21,681	25,159
Income taxes	1,597	3,372	4,107	5,464	6,340
Extraordinary items	(892)	(3,393)	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	5,325	10,256	12,482	16,217	18,819
Adjustments	(892)	(3,393)	0	0	0
Adjusted net profit	4,433	6,864	12,482	16,217	18,819

Balance Sheet

Y/E 31 Dec (Rs mn)	CY21A	CY22A	CY23A	CY24E	CY25E
Accounts payables	19,613	26,368	31,091	37,609	40,305
Other current liabilities	20,244	17,015	18,850	24,770	26,546
Provisions	0	0	0	0	0
Debt funds	181	121	201	0	0
Other liabilities	238	285	424	424	424
Equity capital	424	424	424	424	424
Reserves & surplus	40,028	48,970	59,022	73,862	91,304
Shareholders' fund	40,452	49,394	59,446	74,286	91,728
Total liab. and equities	80,727	93,182	1,10,012	1,37,089	1,59,003
Cash and cash eq.	26,877	36,422	48,162	41,615	62,052
Accounts receivables	16,950	20,930	25,443	33,433	35,830
Inventories	10,091	14,207	15,608	20,509	21,979
Other current assets	12,436	7,427	6,263	24,517	26,274
Investments	0	0	0	0	0
Net fixed assets	8,170	8,992	9,755	10,238	10,656
CWIP	769	693	599	787	844
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	5,435	4,512	4,183	5,990	1,367
Total assets	80,727	93,182	1,10,012	1,37,089	1,59,003

Cash Flows

Y/E 31 Dec (Rs mn)	CY21A	CY22A	CY23A	CY24E	CY25E
Cash flow from operations	6,492	7,419	13,515	(1,174)	19,048
Capital expenditures	(1,358)	(1,479)	(1,831)	(1,800)	(1,800)
Change in investments	(19,670)	18,399	(34,461)	(188)	(56)
Other investing cash flows	950	1,342	2,770	(1,807)	4,622
Cash flow from investing	(20,079)	18,262	(33,522)	(3,795)	2,766
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(124)	(300)	(364)	(201)	0
Interest expenses	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flows	(1,144)	(1,102)	(2,331)	(1,377)	(1,377)
Cash flow from financing	(1,268)	(1,402)	(2,695)	(1,578)	(1,377)
Chg in cash & cash eq.	(14,855)	24,280	(22,701)	(6,547)	20,437
Closing cash & cash eq.	26,877	36,422	48,162	41,615	62,052

Per Share

Y/E 31 Dec (Rs)	CY21A	CY22A	CY23A	CY24E	CY25E
Reported EPS	25.1	48.4	58.9	76.5	88.8
Adjusted EPS	20.9	32.4	58.9	76.5	88.8
Dividend per share	5.2	5.2	29.3	6.5	6.5
Book value per share	190.9	233.1	280.5	350.6	432.9

Valuations Ratios

Y/E 31 Dec (x)	CY21A	CY22A	CY23A	CY24E	CY25E
EV/Sales	21.9	17.8	14.6	11.1	10.3
EV/EBITDA	273.2	158.1	102.1	74.3	63.7
Adjusted P/E	343.2	221.6	121.9	93.8	80.8
P/BV	37.6	30.8	25.6	20.5	16.6

DuPont Analysis

Y/E 31 Dec (%)	CY21A	CY22A	CY23A	CY24E	CY25E
Tax burden (Net profit/PBT)	73.5	67.1	75.2	74.8	74.8
Interest burden (PBT/EBIT)	132.8	119.4	121.1	113.3	111.8
EBIT margin (EBIT/Revenue)	6.5	10.0	13.1	13.9	15.3
Asset turnover (Rev./Avg TA)	88.5	98.5	102.8	111.1	99.4
Leverage (Avg TA/Avg Equity)	2.0	1.9	1.9	1.8	1.8
Adjusted ROAE	11.6	15.3	22.9	24.3	22.7

Ratio Analysis

Y/E 31 Dec	CY21A	CY22A	CY23A	CY24E	CY25E
YoY growth (%)					
Revenue	19.1	23.6	21.9	31.4	7.2
EBITDA	105.3	72.8	54.9	37.3	16.7
Adjusted EPS	138.4	54.8	81.9	29.9	16.0
Profitability & Return ratios (%)					
EBITDA margin	8.0	11.2	14.3	14.9	16.2
EBIT margin	6.5	10.0	13.1	13.9	15.3
Adjusted profit margin	6.4	8.0	11.9	11.8	12.8
Adjusted ROAE	11.6	15.3	22.9	24.3	22.7
ROCE	0.0	0.0	0.0	0.0	0.0
Working capital days (days)					
Receivables	89	89	89	89	89
Inventory	53	61	55	55	55
Payables	103	112	109	100	100
Ratios (x)					
Gross asset turnover	6.1	6.4	6.8	8.0	7.7
Current ratio	1.7	1.8	1.9	1.9	2.2
Net interest coverage ratio	42.4	65.4	108.2	108.0	120.9
Adjusted debt/equity	(0.7)	(0.7)	(0.8)	(0.6)	(0.7)

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

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

BUY – Expected return >+15%

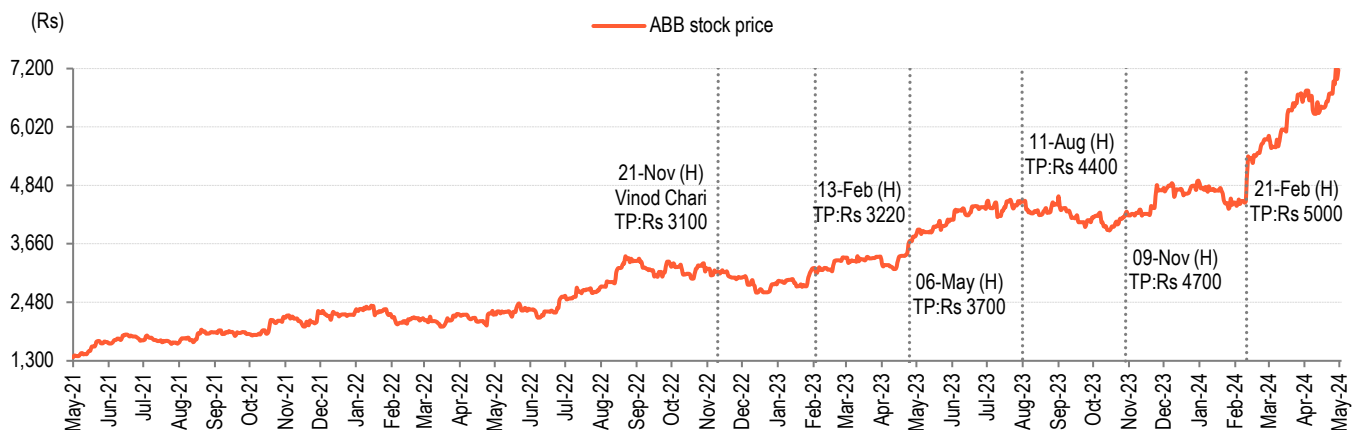
HOLD – Expected return from -6% to +15%

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

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