

HOLD

TP: Rs 4,700 | ▲ 9%

ABB INDIA

| Capital Goods

| 09 November 2023

Sprinting along

- **Robust quarter with revenue up 31% YoY and 590bps EBITDA margin expansion aided by the robotics and robotics segments**
- **Base order inflows grew 14% YoY despite a high comparable quarter; strong outlook given customers' large investment lineup**
- **CY23/CY24 EPS raised 8%/5% and TP increased to Rs 4,700 (vs. Rs 4,400) on rollover; maintain HOLD**

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Robust quarter: ABB reported a robust Q3CY23 (Y/E Dec) backed by a favourable product mix, efficient supply chain management and better pricing power. Revenue increased 31% YoY to Rs 27.7bn led by growth of 105% in robotics (to Rs 1.2bn), 11% in the motion division (Rs 9.8bn), 18% in electrification (Rs 10.4bn), and 93% in industrial automation (Rs 6.8bn). Gross and EBITDA margins expanded 190bps and 590bps YoY to 36.7% and 15.8% respectively on the back of lower raw material prices, better operating leverage and higher capacity utilisation. ABB has maintained a strong gross margin of over 34% in the last six quarters.

Sustained strong outlook: Order inflows stood at Rs 30bn, advancing 14% YoY in Q3CY23 and taking ABB's order backlog to Rs 80bn. We note that management had earlier guided for 12-15% growth in order inflows for the year (from Rs 86bn in CY22), as many end-user segments are witnessing an upcycle in investments, along with ~Rs 23bn of base orders per quarter which is visible in the quarterly flows. For CY23, management had earlier guided for revenue of Rs 100bn, a gross margin of 35-37%, and PAT margin of 10%, which looks achievable given the company's strong 9MCY23 performance.

Focus on short-cycle orders aiding margins and cash flows: The short-cycle business has been performing well across segments, which is both lifting margins and shoring up the cash balance. ABB's current cash balance stands at Rs 43.6bn vs. Rs 40.9bn in the previous quarter, some of which is earmarked for potential acquisition targets, both global and local. Inorganic investments will be targeted towards digitalisation partnerships that enhance the core portfolio and drive value-add for customers, as well as growth in energy and energy-efficiency sectors.

Maintain HOLD: We raise our CY23/CY24 EPS estimates by 8%/5% given the strong margins and higher confidence of sustainability. We continue to value the stock at 70x P/E – in line with the 5Y mean – and roll valuations forward to Sep'25E. Along with estimate revision, this yields a higher TP of Rs 4,700 (vs. Rs 4,400). Positives appear priced in at current valuations and hence we retain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ABB IN/Rs 4,311
Market cap	US\$ 11.1bn
Free float	25%
3M ADV	US\$ 13.6mn
52wk high/low	Rs 4,678/Rs 2,640
Promoter/FPI/DII	75%/4%/9%

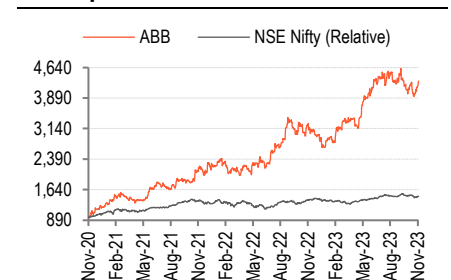
Source: NSE | Price as of 9 Nov 2023

Key financials

Y/E 31 Dec	CY22A	CY23E	CY24E
Total revenue (Rs mn)	85,675	1,07,745	1,29,144
EBITDA (Rs mn)	9,619	14,655	17,504
Adj. net profit (Rs mn)	6,864	11,567	13,739
Adj. EPS (Rs)	32.4	54.6	64.8
Consensus EPS (Rs)	32.4	51.6	62.5
Adj. ROAE (%)	15.3	21.4	21.2
Adj. P/E (x)	133.1	79.0	66.5
EV/EBITDA (x)	94.9	62.3	52.2
Adj. EPS growth (%)	54.8	68.5	18.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q3CY23	Q3CY22	YoY (%)	Q2CY23	QoQ (%)	9MCY23	9MCY22	YoY (%)
Revenue	27,692	21,197	30.6	25,086	10.4	76,890	61,406	25.2
EBITDA	4,385	2,110	107.9	3,487	25.8	10,726	5,976	79.5
EBITDA Margin (%)	15.8	10.0	588bps	13.9	194	13.9	9.7	422bps
Depreciation	303	269		292		870	779	
Interest	9	16		14		45	59	
Other Income	768	469		750		2,241	1,095	
PBT	4,842	2,294	111.1	3,931	23.2	12,052	6,233	93.4
Tax	1,222	728		973		3,022	2,429	
Adjusted PAT	3,620	1,566	131.2	2,958	22.4	9,030	3,804	137.4
Exceptional item								
Reported PAT	3,620	2,025	78.8	2,958	22.4	9,030	3,804	137.4
Adj. PAT Margin (%)	13.1	7.4	569bps	11.8	128	11.7	6.2	555bps
EPS (Rs)	17.1	7.4	131.2	14.0	22.4	31.0	14.3	116.6

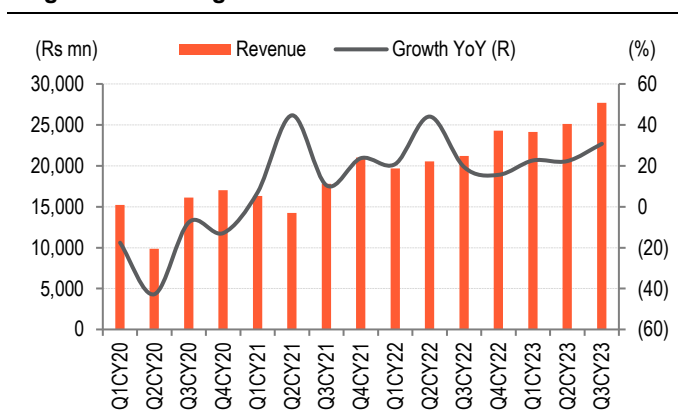
Source: Company, BOBCAPS Research

Fig 2 – Segment-wise performance

Particulars (Rs mn)	Q3CY23	Q3CY22	YoY (%)	Q2CY23	QoQ (%)
Segment Revenue					
Robotics & Discrete automation	1,183	577	105.2	1,225	(3.4)
Motion	9,810	8,822	11.2	9,173	6.9
Electrification Products	10,420	8,809	18.3	10,056	3.6
Industrial Automation	6,756	3,499	93.1	5,096	32.6
Segment EBIT					
Robotics & Discrete automation	142	73	94.2	155	(8.4)
EBIT margin (%)	12.0	12.6	(68bps)	12.6	(65bps)
Motion	1,899	931	103.9	1,329	42.9
EBIT margin (%)	19.4	10.6	880bps	14.5	486bps
Electrification Products	2,011	1,280	57.2	1,640	22.6
EBIT margin (%)	19.3	14.5	478bps	16.3	299bps
Industrial Automation	983	350	180.6	568	73.2
EBIT margin (%)	14.5	10.0	454bps	11.1	341bps

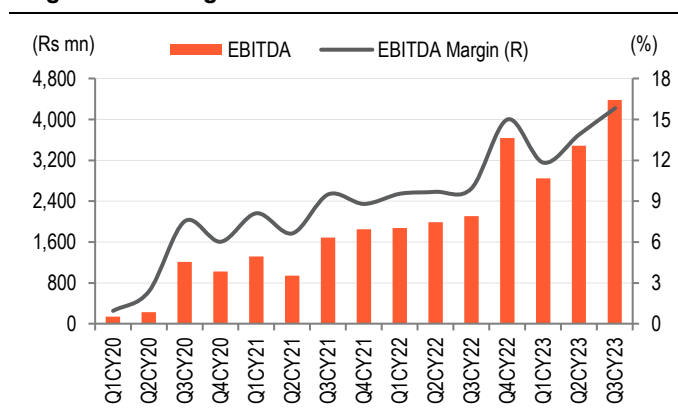
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth



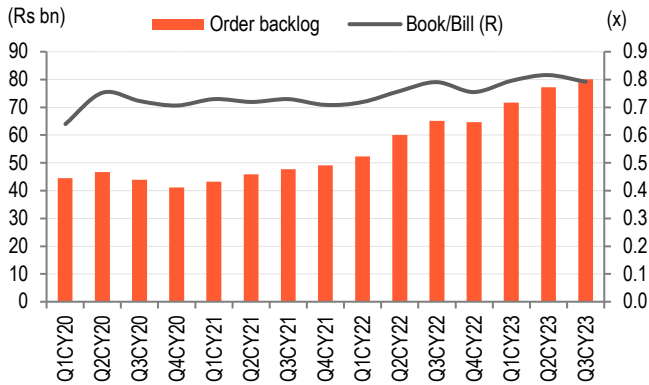
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth



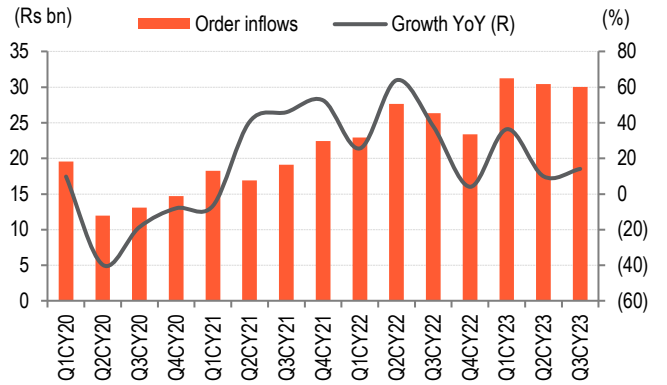
Source: Company, BOBCAPS Research

Fig 5 – Order backlog



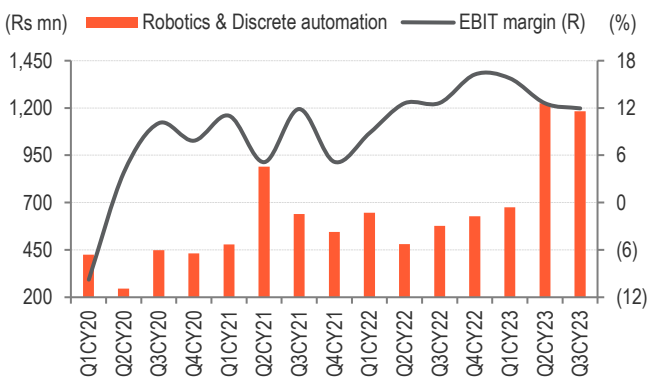
Source: Company, BOBCAPS Research

Fig 6 – Order inflow



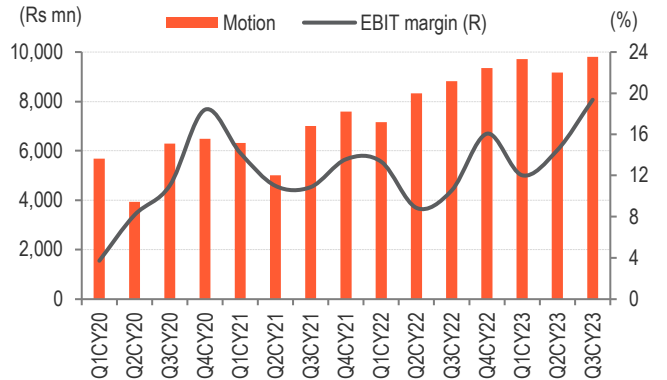
Source: Company, BOBCAPS Research

Fig 7 – Robotics & discrete automation performance



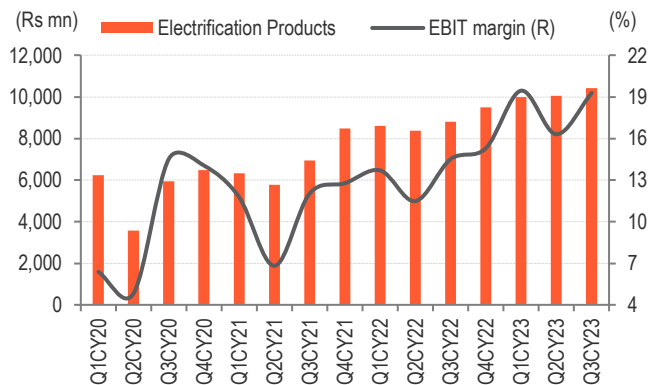
Source: Company, BOBCAPS Research

Fig 8 – Motion business performance



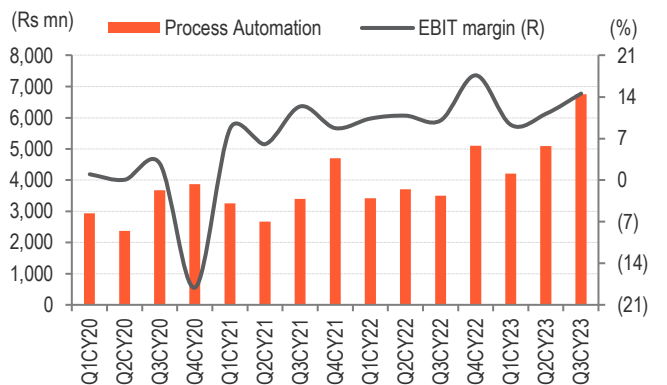
Source: Company, BOBCAPS Research

Fig 9 – Electrification business performance

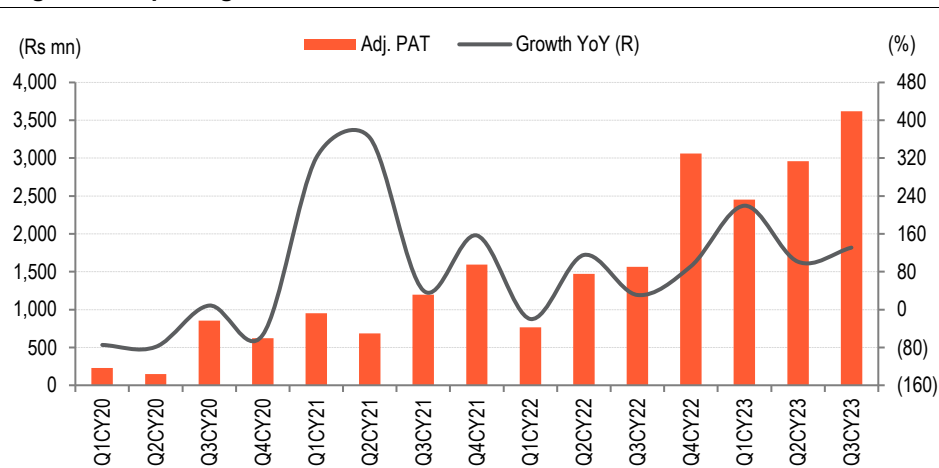


Source: Company, BOBCAPS Research

Fig 10 – Process automation performance



Source: Company, BOBCAPS Research

Fig 11 – Net profit growth

Source: Company, BOBCAPS Research

Earnings call highlights

Operational highlights

- **Margins:** ABB's gross margin expanded by 190bps YoY to 36.7% and EBITDA margin by 590bps to 15.8% during Q3CY23, which management attributed to effective capacity utilisation, a favourable product mix and better quality of revenue. Other expenses surged from Rs 3.7bn in Q3CY22 to Rs 4bn this quarter largely due to higher variable costs and provisions taken for receivables.
- **Order book:** ABB reported a 14% YoY rise in order intake to Rs 30bn for Q3CY23 and closed the quarter with an order book of Rs 80bn, an increase of 23% YoY. Order flows came from segments such as metals, energy, railways, electronics, data centres, electric vehicles and paints. Service orders grew 25% YoY, leading to better margins.

Electrification business

- **Orders:** The electrification segment reported order inflows of Rs 10.3bn and a backlog of Rs 20.9bn for the quarter, an increase of 7% (off a high base) and 28% YoY respectively. Catalysts for growth in inflows included traction in the renewable segment, in distribution solutions and the smart power division, alongside higher penetration in the retail market.
- **Key wins:** ABB received orders from a leading energy company, a major data centre player and a metals major.
- **Growth:** Segmental revenue grew 18% YoY to Rs 10.4bn and management maintains guidance of a Rs 10bn quarterly revenue run rate in the segment.

Motion business

- **Orders:** The motion business reported inflows of Rs 14.2bn (+47% YoY) and a backlog of Rs 30bn (+32%) for the quarter, with management attributing growth to the railway segment, apart from large motors and generators, and greater penetration in tier-II and III cities.

- **Margin:** The segmental EBIT margin expanded 880bps YoY to 19.4% due to higher volumes and a better product mix.

Process automation business

- **Orders:** In process automation, ABB clocked inflows of Rs 5.3bn (-25% YoY) and a backlog of Rs 28bn (+10%) for the quarter. While the company saw demand traction from the energy and process industries, it indicated that order inflows were delayed due to pending approvals, which it expects to receive over the next few quarters.
- **Growth:** Segmental revenue jumped 93% YoY to Rs 6.8bn on the back of higher project execution and an increase in services and export revenue during the quarter.
- **Margins:** EBIT margin expanded 450bps to 14.5%, primarily due to a better product mix and execution of higher-margin orders.

Robotics and discrete automation business

- **Orders:** The robotics and discrete automation segment reported inflows of Rs 1.2bn (+132% YoY) and a backlog of Rs 2.3bn (+39%) for the quarter. The paints, automotive and electronics segments, along with service orders, were major contributors here, with a large order in paints being fulfilled during the quarter.
- **Key orders:** ABB received a large order from an automotive manufacturer and another from a leading electronics manufacturer during the quarter.

Key orders received during Q3

- Energy-efficient systems driven solutions for a steel major
- Robotics automation for painting and cleaning of EVs from an Indian auto major
- Robotics solutions for a leading electronics manufacturer
- Gas insulated switchgears for an energy company
- Power distribution solutions for a data centre company
- Compact substations for a leading private power company
- Propulsion technology solutions for a multinational railway transportation company
- Rectifiers for a global natural resources company

Valuation methodology

ABB's performance has improved significantly over the last few quarters, and management commentary points to strong momentum going forward. We increase our CY23/CY24 EPS estimates by 8%/5% given the strong margins in Q3CY23 and higher confidence of sustainability.

We continue to value the stock at 70x P/E – in line with the five-year mean – and roll valuations forward to Sep'25E. We also introduce CY25 forecasts in this report. Along with estimate revision, this yields a higher TP of Rs 4,700 (vs. Rs 4,400). However, positives appear priced in at current valuations and hence we retain our HOLD rating.

Fig 12 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	CY23E	CY24E	CY23E	CY24E	CY23E	CY24E
Sales	1,07,745	1,29,144	1,04,522	1,27,355	3.1	1.4
EBITDA	14,655	17,504	13,457	16,650	8.9	5.1
PAT	11,567	13,739	10,671	13,100	8.4	4.9
EPS (Rs)	54.6	64.8	50.4	61.8	8.4	4.9
EBITDA Margin (%)	13.6	13.6	12.9	13.1	73bps	48bps

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 strategy 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	11.1	4,311	4,700	HOLD
AIA Engineering	AIAE IN	4.1	3,611	4,200	BUY
Cummins India	KKC IN	5.9	1,751	2,200	BUY
Hitachi Energy	POWERIND IN	2.3	4,478	4,200	HOLD
KEC International	KECI IN	1.8	576	670	HOLD
Larsen & Toubro	LT IN	51.7	3,025	3,500	BUY
Siemens India	SIEM IN	14.7	3,389	3,900	HOLD
Thermax	TMX IN	4.2	2,913	3,000	HOLD

Source: BOBCAPS Research, NSE | Price as of 9 Nov 2023

Financials

Income Statement

Y/E 31 Dec (Rs mn)	CY21A	CY22A	CY23E	CY24E	CY25E
Total revenue	69,340	85,675	1,07,745	1,29,144	1,38,594
EBITDA	5,567	9,619	14,655	17,504	18,118
Depreciation	1,027	1,047	1,213	1,266	1,338
EBIT	4,540	8,572	13,442	16,238	16,780
Net interest inc./(exp.)	107	131	131	131	131
Other inc./(exp.)	1,596	1,795	2,154	2,261	2,374
Exceptional items	0	0	0	0	0
EBT	6,029	10,235	15,464	18,368	19,023
Income taxes	1,597	3,372	3,897	4,629	4,794
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	11,567	13,739	14,229
Adjustments	(892)	(3,393)	0	0	0
Adjusted net profit	4,433	6,864	11,567	13,739	14,229

Balance Sheet

Y/E 31 Dec (Rs mn)	CY21A	CY22A	CY23E	CY24E	CY25E
Accounts payables	19,613	26,368	29,519	35,382	37,971
Other current liabilities	20,244	17,015	21,398	25,648	27,525
Provisions	0	0	0	0	0
Debt funds	181	121	0	0	0
Other liabilities	238	285	285	285	285
Equity capital	424	424	424	424	424
Reserves & surplus	40,028	48,970	58,058	70,420	83,272
Shareholders' fund	40,452	49,394	58,482	70,844	83,696
Total liab. and equities	80,727	93,182	1,09,685	1,32,159	1,49,477
Cash and cash eq.	26,877	36,422	31,064	41,362	54,980
Accounts receivables	16,950	20,930	26,321	31,549	33,858
Inventories	10,091	14,207	17,866	21,415	22,982
Other current assets	12,436	7,427	19,250	23,073	24,761
Investments	0	0	0	0	0
Net fixed assets	8,170	8,992	9,379	9,912	10,374
CWIP	769	693	871	1,044	1,120
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	5,435	4,512	4,934	3,804	1,402
Total assets	80,727	93,182	1,09,685	1,32,159	1,49,477

Cash Flows

Y/E 31 Dec (Rs mn)	CY21A	CY22A	CY23E	CY24E	CY25E
Cash flow from operations	6,492	7,419	(558)	12,519	14,469
Capital expenditures	(1,358)	(1,479)	(1,600)	(1,800)	(1,800)
Change in investments	(19,670)	18,399	(178)	(173)	(76)
Other investing cash flows	950	1,342	(422)	1,130	2,402
Cash flow from investing	(20,079)	18,262	(2,200)	(843)	526
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(124)	(300)	(121)	0	0
Interest expenses	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flows	(1,144)	(1,102)	(2,479)	(1,377)	(1,377)
Cash flow from financing	(1,268)	(1,402)	(2,600)	(1,377)	(1,377)
Chg in cash & cash eq.	(14,855)	24,280	(5,358)	10,299	13,618
Closing cash & cash eq.	26,877	36,422	31,064	41,362	54,980

Per Share

Y/E 31 Dec (Rs)	CY21A	CY22A	CY23E	CY24E	CY25E
Reported EPS	25.1	48.4	54.6	64.8	67.1
Adjusted EPS	20.9	32.4	54.6	64.8	67.1
Dividend per share	5.2	5.2	11.7	6.5	6.5
Book value per share	190.9	233.1	276.0	334.3	395.0

Valuations Ratios

Y/E 31 Dec (x)	CY21A	CY22A	CY23E	CY24E	CY25E
EV/Sales	13.2	10.7	8.5	7.1	6.6
EV/EBITDA	164.1	94.9	62.3	52.2	50.4
Adjusted P/E	206.1	133.1	79.0	66.5	64.2
P/BV	22.6	18.5	15.6	12.9	10.9

DuPont Analysis

Y/E 31 Dec (%)	CY21A	CY22A	CY23E	CY24E	CY25E
Tax burden (Net profit/PBT)	73.5	67.1	74.8	74.8	74.8
Interest burden (PBT/EBIT)	132.8	119.4	115.0	113.1	113.4
EBIT margin (EBIT/Revenue)	6.5	10.0	12.5	12.6	12.1
Asset turnover (Rev./Avg TA)	88.5	98.5	106.2	106.8	98.4
Leverage (Avg TA/Avg Equity)	2.0	1.9	1.9	1.9	1.8
Adjusted ROAE	11.6	15.3	21.4	21.2	18.4

Ratio Analysis

Y/E 31 Dec	CY21A	CY22A	CY23E	CY24E	CY25E
YoY growth (%)					
Revenue	19.1	23.6	25.8	19.9	7.3
EBITDA	105.3	72.8	52.4	19.4	3.5
Adjusted EPS	138.4	54.8	68.5	18.8	3.6
Profitability & Return ratios (%)					
EBITDA margin	8.0	11.2	13.6	13.6	13.1
EBIT margin	6.5	10.0	12.5	12.6	12.1
Adjusted profit margin	6.4	8.0	10.7	10.6	10.3
Adjusted ROAE	11.6	15.3	21.4	21.2	18.4
ROCE	0.0	0.0	0.0	0.0	0.0
Working capital days (days)					
Receivables	89	89	89	89	89
Inventory	53	61	61	61	61
Payables	103	112	100	100	100
Ratios (x)					
Gross asset turnover	6.1	6.4	7.1	7.7	7.4
Current ratio	1.7	1.8	1.9	1.9	2.1
Net interest coverage ratio	42.4	65.4	102.5	123.9	128.0
Adjusted debt/equity	(0.7)	(0.7)	(0.5)	(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%

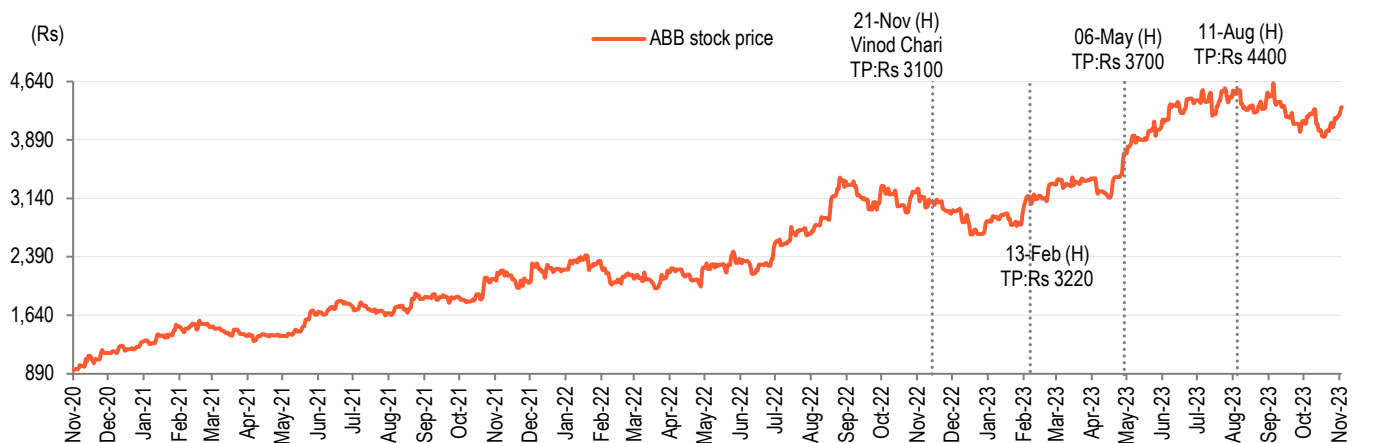
HOLD – Expected return from -6% to +15%

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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