

HOLD

TP: Rs 3,700 | ▼ 1%

ABB INDIA

| Capital Goods

| 06 May 2023

Strong showing but priced in

- Robust Q1 with revenue up 23% YoY and EBITDA margin expansion of 230bps aided by the robotics and electrification segments
- Order inflows expected to grow 12-15% in CY23 given strong investments in end-user segments
- CY23/CY24 EPS raised 10%/6% and TP upped to Rs 3,700 (vs. Rs 3,220) on rollover; maintain HOLD given the run-up in stock price

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Strong quarter: ABB reported a robust Q1CY23 backed by a favourable product mix, efficient supply chain management and pricing power. Revenue increased 23% YoY to Rs 24bn led by growth of 4% in robotics (to Rs 675mn), 36% in the motion division (Rs 9.7bn), 16% in electrification (Rs 10bn), and 23% in industrial automation (Rs 4.2bn). EBITDA margin at 12% expanded 230bps YoY aided by strong margin gains across the robotics and electrification segments. Adj. PAT thus grew 219% YoY to Rs 2.4bn.

Robust order pipeline: Order inflows stood at Rs 31bn, advancing 36% YoY in Q1CY23 and taking ABB’s order book to Rs 71.7bn. The company indicated that it has a strong funnel of potential inflows and is seeing healthy on-ground demand. Order inflows are targeted to grow 12-15% for the year (vs. Rs 86bn in CY22) as many end-user segments are witnessing an upcycle in investments. This is in keeping with ABB’s earlier announcement of securing ~Rs 23bn of base orders every quarter. For CY23, management had guided revenue of Rs 100bn, gross margin of 35-37%, and PAT margin of 10%.

Short-cycle business aiding margins, cash flows: The short-cycle business has been performing well across various segments, posting significant YoY revenue growth of 33% in Q1. This is both lifting margins and shoring up the cash balance. ABB’s current cash balance stands at Rs 39.4bn vs. Rs 36bn in the previous quarter, some of which is earmarked for potential 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.

Retain HOLD: We expect a revenue/EBITDA/PAT CAGR of 22%/21%/28% for ABB over CY22-CY24. While the company ticks all the right boxes and has a strong structural growth story, the stock has run up 26.8% over the past 3 months and current valuations of 70x CY24E EPS reflect most positives, leading us to retain HOLD. We continue to value the stock at 70x P/E – in line with the 5Y mean – but roll valuations forward to CY24 and raise CY23/CY24 EPS estimates 10%/6%, yielding a revised TP of Rs 3,700 (vs. Rs 3,220).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ABB IN/Rs 3,719
Market cap	US\$ 9.6bn
Free float	25%
3M ADV	US\$ 15.9mn
52wk high/low	Rs 3,754/Rs 2,077
Promoter/FPI/DII	75%/4%/9%

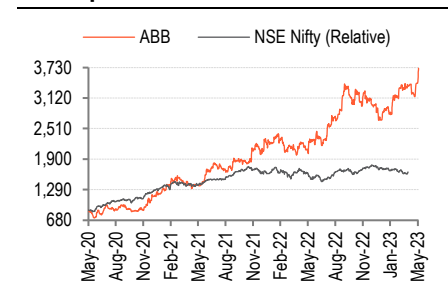
Source: NSE | Price as of 5 May 2023

Key financials

Y/E 31 Dec	CY22A	CY23E	CY24E
Total revenue (Rs mn)	85,675	1,04,522	1,27,355
EBITDA (Rs mn)	9,619	11,367	14,102
Adj. net profit (Rs mn)	6,864	9,108	11,195
Adj. EPS (Rs)	32.4	43.0	52.8
Consensus EPS (Rs)	32.4	40.3	50.3
Adj. ROAE (%)	15.3	17.1	18.0
Adj. P/E (x)	114.8	86.5	70.4
EV/EBITDA (x)	81.9	69.3	55.9
Adj. EPS growth (%)	54.8	32.7	22.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

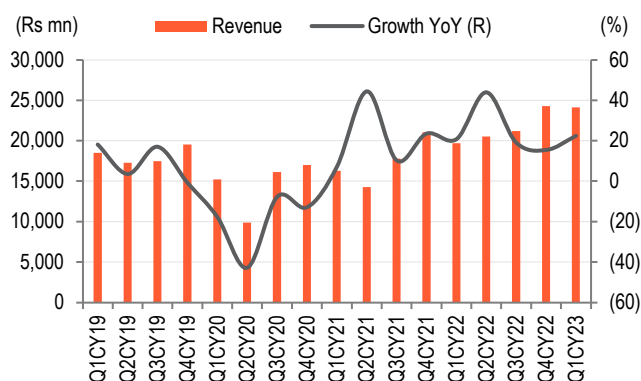


Fig 1 – Quarterly performance

Particulars (Rs mn)	Q1CY23	Q1CY22	YoY (%)	Q4CY22	QoQ (%)
Revenue	24,112	19,684	22.5	24,269	(0.6)
EBITDA	2,853	1,879	51.9	3,643	(21.7)
EBITDA margin (%)	11.8	9.5	228bps	15.0	(318bps)
Depreciation	275	257	-	268	-
Interest	22	15	-	72	-
Other Income	723	373	-	700	-
PBT	3,279	1,980	65.6	4,002	(18.1)
Tax	827	1,212	-	943	-
Adjusted PAT	2,452	768	219.3	3,059	(19.9)
Exceptional item	0	(2,934)	-	0	-
Reported PAT	2,452	3,701	(33.8)	3,059	(19.9)
Adj. PAT margin (%)	10.2	3.9	627bps	12.6	(244bps)
EPS (Rs)	11.6	3.6	219.3	14.4	(19.9)

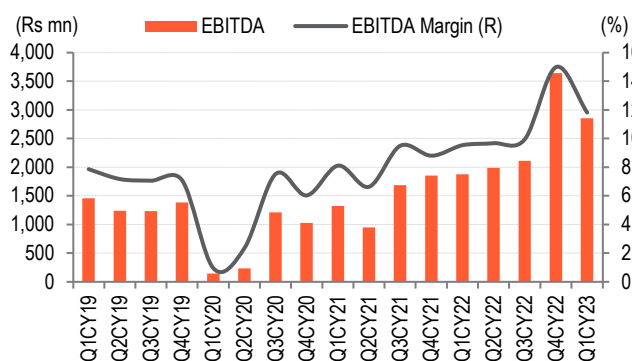
Source: Company, BOBCAPS Research

Fig 2 – Revenue trend



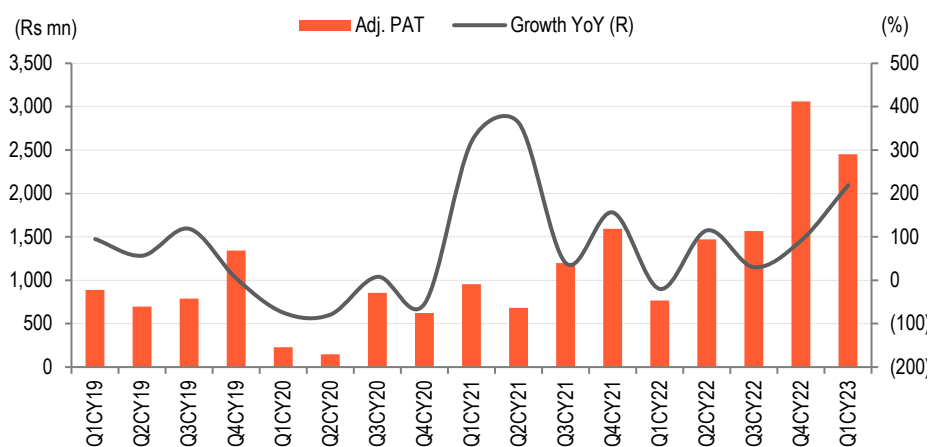
Source: Company, BOBCAPS Research

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 22%/21%/28% for ABB over CY22-CY24. While the company ticks all the right boxes and has a strong structural growth story, the stock has run up xx% over the past xxxxx months and current valuations of xxx FYxxE EPS reflect most positives, leading us to retain HOLD. We continue to value the stock at 70x P/E – in line with the five-year mean – but roll valuations forward to CY24E and raise CY23/CY24 EPS estimates by 10%/6%, yielding a revised TP of Rs 3,700 (vs. Rs 3,220).

Fig 5 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	CY23E	CY24E	CY23E	CY24E	CY23E	CY24E
Sales	104,522	127,355	102,044	123,098	2.4	3.6
EBITDA	11,367	14,102	10,423	13,379	9.1	5.4
PAT	9,108	11,195	8,288	10,558	9.9	6.0
EPS	43.0	52.8	39.1	49.8	9.9	6.0
EBITDAM (%)	10.9	11.1	10.2	10.9	66.1	20.5

Source: 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 to our estimates 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	9.6	3,719	3,700	HOLD
AIA Engineering	AIAE IN	3.2	2,747	3,300	BUY
Cummins India	KKC IN	5.4	1,596	1,600	HOLD
KEC International	KECI IN	1.6	518	500	HOLD
Larsen & Toubro	LT IN	40.9	2,378	2,440	BUY
Siemens India	SIEM IN	15.8	3,634	3,800	BUY
Thermax	TMX IN	3.4	2,342	2,200	HOLD

Source: BOBCAPS Research, NSE | Price as of 5 May 2023

Financials

Income Statement

Y/E 31 Dec (Rs mn)	CY20A	CY21A	CY22A	CY23E	CY24E
Total revenue	58,210	69,340	85,675	1,04,522	1,27,355
EBITDA	2,712	5,567	9,619	11,367	14,102
Depreciation	1,204	1,027	1,047	1,213	1,266
EBIT	1,508	4,540	8,572	10,154	12,836
Net interest inc./(exp.)	169	107	131	131	131
Other inc./(exp.)	1,116	1,596	1,795	2,154	2,261
Exceptional items	0	0	0	0	0
EBT	2,456	6,029	10,235	12,176	14,967
Income taxes	597	1,597	3,372	3,068	3,772
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	9,108	11,195
Adjustments	(445)	(892)	(3,393)	0	0
Adjusted net profit	1,859	4,433	6,864	9,108	11,195

Balance Sheet

Y/E 31 Dec (Rs mn)	CY20A	CY21A	CY22A	CY23E	CY24E
Accounts payables	17,207	19,613	26,368	28,636	34,892
Other current liabilities	21,999	20,244	17,015	20,758	25,293
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	56,764	66,582
Shareholders' fund	36,064	40,452	49,394	57,188	67,006
Total liab. and equities	75,905	80,727	93,182	1,06,867	1,27,475
Cash and cash eq.	22,066	26,877	36,422	30,891	37,366
Accounts receivables	16,950	16,950	20,930	25,534	31,112
Inventories	8,408	10,091	14,207	17,332	21,118
Other current assets	13,413	12,436	7,427	18,674	22,753
Investments	0	0	0	0	0
Net fixed assets	6,938	8,170	8,992	9,379	9,912
CWIP	749	769	693	845	1,029
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	7,382	5,435	4,512	4,213	4,184
Total assets	75,905	80,727	93,182	1,06,867	1,27,475

Cash Flows

Y/E 31 Dec (Rs mn)	CY20A	CY21A	CY22A	CY23E	CY24E
Cash flow from operations	3,182	6,492	7,419	(2,643)	9,808
Capital expenditures	(1,137)	(1,358)	(1,479)	(1,600)	(1,800)
Change in investments	0	(19,670)	18,399	(152)	(185)
Other investing cash flows	5,561	950	1,342	299	29
Cash flow from investing	4,424	(20,079)	18,262	(1,454)	(1,955)
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	(5,531)	6,475
Closing cash & cash eq.	22,066	26,877	36,422	30,891	37,366

Per Share

Y/E 31 Dec (Rs)	CY20A	CY21A	CY22A	CY23E	CY24E
Reported EPS	10.9	25.1	48.4	43.0	52.8
Adjusted EPS	8.8	20.9	32.4	43.0	52.8
Dividend per share	4.8	5.2	5.2	6.2	6.5
Book value per share	170.2	190.9	233.1	269.9	316.2

Valuations Ratios

Y/E 31 Dec (x)	CY20A	CY21A	CY22A	CY23E	CY24E
EV/Sales	13.5	11.4	9.2	7.5	6.2
EV/EBITDA	290.6	141.5	81.9	69.3	55.9
Adjusted P/E	423.8	177.8	114.8	86.5	70.4
P/BV	21.9	19.5	16.0	13.8	11.8

DuPont Analysis

Y/E 31 Dec (%)	CY20A	CY21A	CY22A	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	119.9	116.6
EBIT margin (EBIT/Revenue)	2.6	6.5	10.0	9.7	10.1
Asset turnover (Rev./Avg TA)	76.1	88.5	98.5	104.5	108.7
Leverage (Avg TA/Avg Equity)	2.1	2.0	1.9	1.9	1.9
Adjusted ROAE	5.2	11.6	15.3	17.1	18.0

Ratio Analysis

Y/E 31 Dec	CY20A	CY21A	CY22A	CY23E	CY24E
YoY growth (%)					
Revenue	(20.4)	19.1	23.6	22.0	21.8
EBITDA	(48.9)	105.3	72.8	18.2	24.1
Adjusted EPS	(50.0)	138.4	54.8	32.7	22.9
Profitability & Return ratios (%)					
EBITDA margin	4.7	8.0	11.2	10.9	11.1
EBIT margin	2.6	6.5	10.0	9.7	10.1
Adjusted profit margin	3.2	6.4	8.0	8.7	8.8
Adjusted ROAE	5.2	11.6	15.3	17.1	18.0
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	6.9	7.6
Current ratio	1.5	1.7	1.8	1.9	1.9
Net interest coverage ratio	8.9	42.4	65.4	77.4	97.9
Adjusted debt/equity	(0.6)	(0.7)	(0.7)	(0.5)	(0.6)

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

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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

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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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