

**HOLD**  
 TP: Rs 5,000 | ▲ 11%

**ABB INDIA**

| Capital Goods

| 21 February 2024

**Ends the year on a high note**

- **Healthy Q4 led by growth across segments; order inflows swelled 35% YoY and backlog held strong at Rs 84bn**
- **Management sees data centres, rail, metros, renewables, and electronics as key growth areas amid India’s capex upturn**
- **CY24/CY25 EPS raised by 6% each and TP increased to Rs 5,000 (vs. Rs 4,700); maintain HOLD as we await a better entry point**

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**Strong finish to CY23:** ABB reported a healthy Q4CY23 (Y/E Dec) print with revenue up 14% YoY to Rs 27.5bn, led by growth of 71% YoY in robotics (to Rs 1.1bn), 8% in the motion division (Rs 9.1bn), 48% in electrification (Rs 11.3bn), and 23% in process automation (Rs 6.3bn). Gross margin expanded 145bps YoY to 37.5% on lower raw material prices, and EBITDA margin was flattish at 15.1% due to a forex impact. ABB has maintained a strong gross margin of >34% in the last six quarters.

**Outperforms guidance; outlook remains strong:** Order inflows stood at Rs 31bn, advancing 35% YoY in Q4CY23 and taking ABB’s order backlog to Rs 84bn (+30% YoY). Order flow for the year has risen 23% to Rs 123bn, surpassing guidance of 12-15% growth (from Rs 100bn in CY22). The company has outperformed CY23 guidance on all other counts as well – revenue stood at Rs 104bn vs. Rs 100bn guided, gross margin at 36.7% vs. 35-37%, and PAT margin at 12% vs. 10%. ABB expects growth to remain healthy given the ongoing capex upturn in India, citing potential drivers such as data centres, railways, metros, renewable energy and electronics.

**Strong cash flows, ROCE and FCF conversion:** EBITDA margin expanded 300bps YoY to 14.3% in CY23, lifted by the short-cycle business. This coupled with strong net cash from operations of Rs 13.5bn (vs. Rs 7.4bn in CY22) led to ~80% free cash flow conversion, taking ABB’s cash balance to Rs 47bn as of Dec’23 (vs. Rs 36bn in the year-ago period) and elevating ROCE to a high of 21% (13% in CY21). Management has stated in the past that some of this cash is earmarked for potential acquisition targets, both global and local, that will enhance the core portfolio and provide growth in energy and energy-efficiency sectors.

**Maintain HOLD:** We raise our CY24/CY25 EPS estimates by 6% each to account for the strong margins and order flows. We continue to value the stock at 70x P/E – in line with the 5Y mean – and roll valuations forward to Dec’25E. Along with estimate revision, this yields a higher TP of Rs 5,000 (vs. Rs 4,700). We retain HOLD on limited upside potential and await a better entry point.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	ABB IN/Rs 4,525
Market cap	US\$ 11.7bn
Free float	25%
3M ADV	US\$ 13.7mn
52wk high/low	Rs 4,990/Rs 3,053
Promoter/FPI/DII	75%/4%/9%

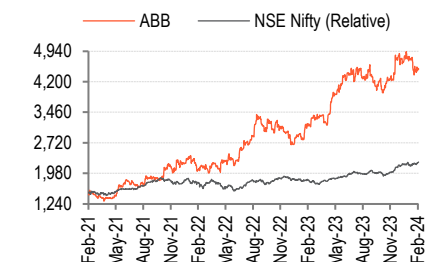
Source: NSE | Price as of 20 Feb 2024

**Key financials**

Y/E 31 Dec	CY23P	CY24E	CY25E
Total revenue (Rs mn)	1,04,465	1,30,241	1,39,540
EBITDA (Rs mn)	14,898	18,038	18,658
Adj. net profit (Rs mn)	12,482	14,547	15,064
Adj. EPS (Rs)	58.9	68.6	71.1
Consensus EPS (Rs)	58.9	66.1	68.9
Adj. ROAE (%)	22.9	22.0	19.0
Adj. P/E (x)	76.8	65.9	63.6
EV/EBITDA (x)	64.3	53.1	51.4
Adj. EPS growth (%)	81.9	16.5	3.6

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance**

Particulars (Rs mn)	Q4CY23	Q4CY22	YoY (%)	Q3CY23	QoQ (%)	CY23	CY22	YoY (%)
Revenue	27,575	24,269	13.6	27,692	(0.4)	1,04,465	85,675	21.9
EBITDA	4,172	3,643	14.5	4,385	(4.9)	14,898	9,619	54.9
EBITDA Margin (%)	15.1	15.0	12bps	15.8	(71bps)	14.3	11.2	303bps
Depreciation	329	268		303		1,199	1,047	
Interest	82	72		9		127	131	
Other Income	776	700		768		3,017	1,795	
PBT	4,537	4,002	13.4	4,842	(6.3)	16,589	10,235	62.1
Tax	1,085	943		1,222		4,107	3,372	
Adjusted PAT	3,452	3,059	12.8	3,620	(4.6)	12,482	6,863	81.9
Exceptional item								
Reported PAT	3,452	3,059	12.8	3,620	(4.6)	12,482	6,863	81.9
Adj. PAT Margin (%)	12.5	12.6	(9bps)	13.1	(55bps)	11.9	8.0	394bps
EPS (Rs)	16.3	14.4	12.8	17.1	(4.6)	58.9	32.4	81.9

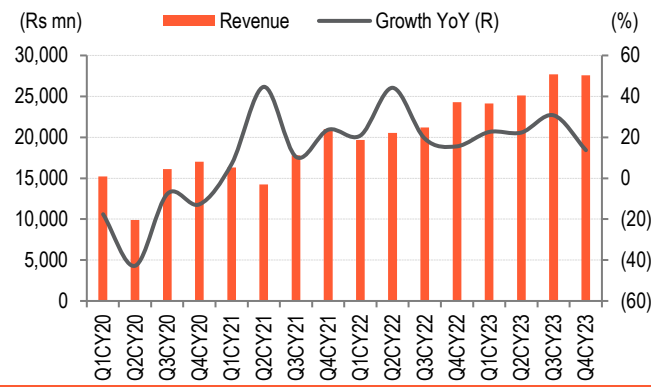
Source: Company, BOBCAPS Research

**Fig 2 – Segment-wise performance**

Particulars (Rs mn)	Q1CY21	Q2CY21	Q3CY21	Q4CY21	Q1CY22	Q2CY22	Q3CY22	Q4CY22	Q1CY23	Q2CY23	Q3CY23	Q4CY23
<b>Revenue</b>												
Robotics & Discrete Automation	480	890	639	544	647	482	577	628	675	1225	1183	1077
Growth YoY (%)	12.7	261.7	42.2	26.2	34.9	(45.9)	(9.8)	15.4	4.4	154.5	105.2	71.5
Motion	6,312	5,005	7,002	7,599	7,157	8,339	8,822	9,353	9,722	9,173	9,810	9,146
Growth YoY (%)	11.2	27.3	11.3	17.2	13.4	66.6	26.0	23.1	35.8	10.0	11.2	(2.2)
Electrification Products	6,330	5,766	6,933	8,493	8,610	8,378	8,809	9,500	9,994	10,056	10,420	11,302
Growth YoY (%)	1.6	61.1	16.6	31.2	36.0	45.3	27.1	11.9	16.1	20.0	18.3	19.0
Process Automation	3,256	2,674	3,396	4,708	3,421	3,704	3,499	5,108	4,202	5,096	6,756	6,307
Growth YoY (%)	10.9	12.7	(7.6)	21.7	5.1	38.5	3.0	8.5	22.8	37.6	93.1	23.5
<b>EBIT</b>												
Robotics & Discrete Automation	53	46	76	28	57	61	73	102	107	155	142	127
EBIT Margin (%)	11.1	5.1	11.9	5.2	8.8	12.6	12.6	16.3	15.8	12.6	12.0	11.8
Motion	896	550	762	1032	954	738	931	1502	1168	1329	1899	1619
EBIT Margin (%)	14.2	11.0	10.9	13.6	13.3	8.9	10.6	16.1	12.0	14.5	19.4	17.7
Electrification Products	745	394	835	1086	1180	963	1280	1455	1946	1640	2011	2148
EBIT Margin (%)	11.8	6.8	12.0	12.8	13.7	11.5	14.5	15.3	19.5	16.3	19.3	19.0
Process Automation	285	161	422	411	354	402	350	900	389	568	983	810
EBIT Margin (%)	8.8	6.0	12.4	8.7	10.4	10.8	10.0	17.6	9.2	11.1	14.5	12.8

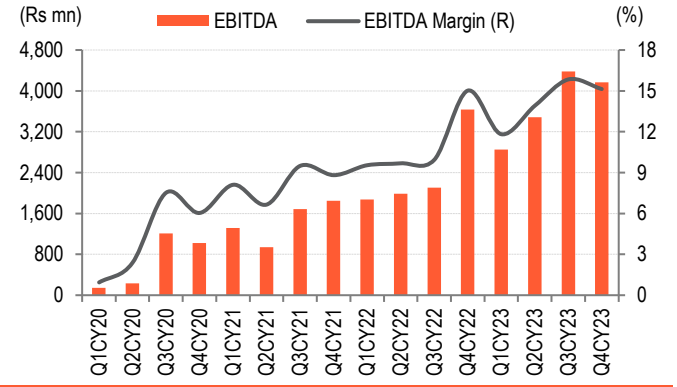
Source: Company, BOBCAPS Research

**Fig 3 – Revenue growth**



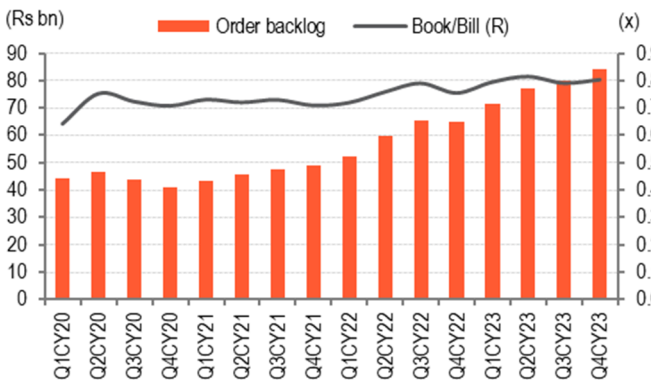
Source: Company, BOBCAPS Research

**Fig 4 – EBITDA growth**



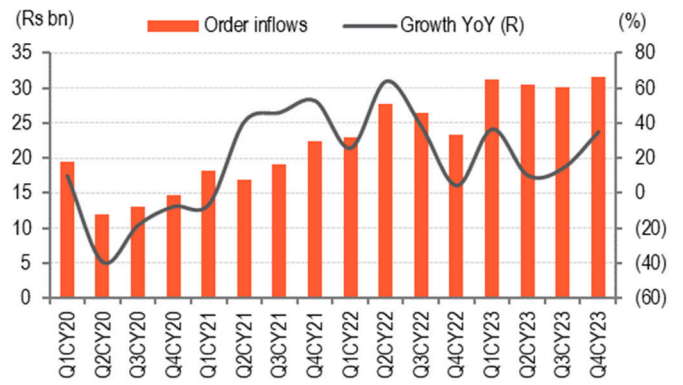
Source: Company, BOBCAPS Research

**Fig 5 – Order backlog**



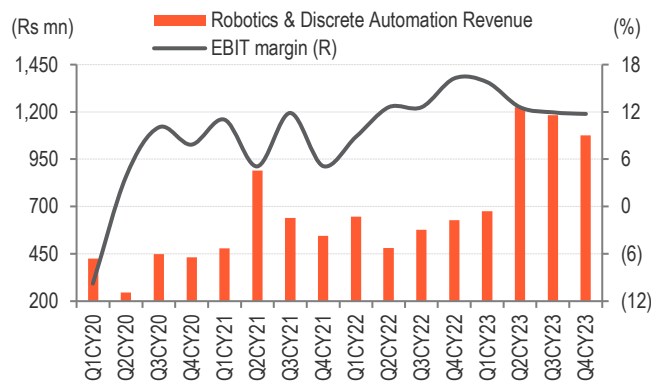
Source: Company, BOBCAPS Research

**Fig 6 – Order inflow**



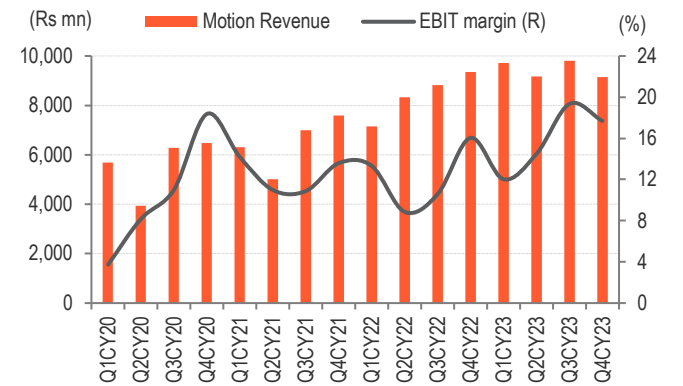
Source: Company, BOBCAPS Research

**Fig 7 – Robotics & discrete automation performance**



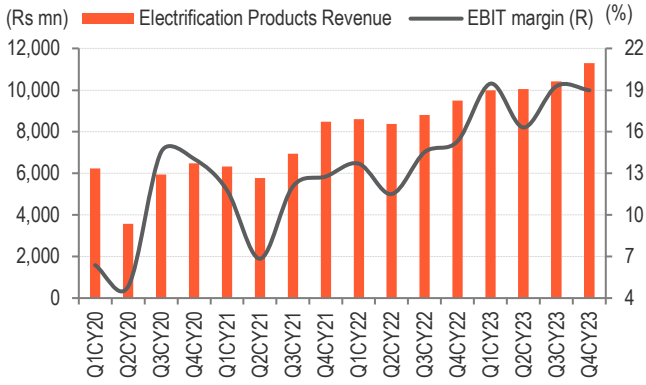
Source: Company, BOBCAPS Research

**Fig 8 – Motion business performance**



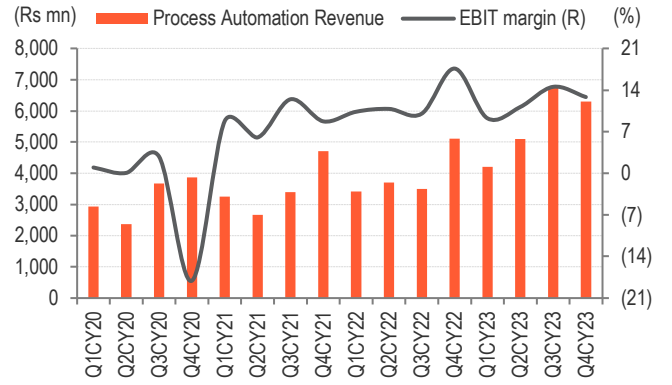
Source: Company, BOBCAPS Research

**Fig 9 – Electrification business performance**



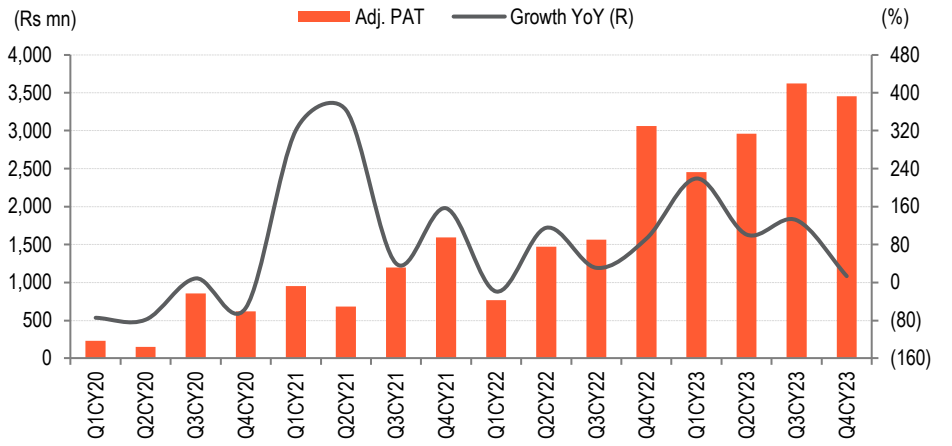
Source: Company, BOBCAPS Research

**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 145bps YoY to 37.5% in Q4CY23, largely due to easing commodity prices, better capacity utilisation and better price realisation. EBITDA margin, however, expanded just ~10bps YoY owing to a negative forex impact, which management expects to be temporary in nature. Other expenses declined to 15.3% of revenue (vs. 15.8% in Q4CY22) on the back of higher volumes and a richer revenue mix, leading to better cost absorption. Adj. PAT grew 12.8% YoY to Rs 3.5bn for the quarter.
- **Orders:** The company received orders worth Rs 31.5bn during the quarter, an increase of 34.8% YoY, due to an uptick in both large and base orders along with healthy growth in the traditional and emerging segments. It received orders from automotive, metals, mining, chemical and textile companies, besides seeing high demand for traction technology in railways and electrification of metros. Per management, order inflows were buoyant from nascent sectors such as data centres, electronics, railways & metros, and renewables. The company ended CY23 with an order backlog of Rs 84bn.
- **Working capital:** ABB's working capital cycle has improved to 35 days in CY23 from 37 days in CY22, led by improvement in inventory management, partially offset by faster payments to creditors. The company has a strong cash position of Rs 47.3bn, and the board has recommended a final dividend of Rs 23.8/sh in addition to interim dividend of Rs 5.5/sh during the year.
- **Premiumisation:** Premiumisation has been a big theme after Covid and ABB indicated that many sectors are now willing to pay higher prices for higher quality technology, as witnessed in the data centre space. Management is currently seeing demand for sustainable technologies in cement, steel, pulp and paper, residential and commercial buildings, and other sectors.

### Electrification

- **Performance:** The electrification segment posted strong 19% YoY topline growth in Q4CY23, with 370bps YoY EBIT margin expansion to 19% on better price realisation, execution of higher margin orders and improvement in utilisation.
- **Orders:** Order inflows for the segment grew 24% YoY to Rs 10.4bn, with an order backlog of Rs 19.6bn at the end of CY23. The company received key orders from data centres, OEMs, metals and energy players, with a higher share of project and system-related engagements.

### Motion

- **Performance:** Revenue from the motion business was flattish at Rs 9bn, but the EBIT margin expanded 160bps YoY to 17.7% due to a stronger product mix and better operating leverage. This quarter included a negative foreign exchange impact, which is expected to be temporary in nature

- **Orders:** Order inflows in the segment increased 82% YoY to Rs 14bn, mainly due to a large traction converter project along with increasing penetration in tier-2/3 cities. The order backlog stood at Rs 35.1bn at the end of CY23. Management believes the railways and metros will drive demand for traction technology, where ABB is gaining a presence and has better technology than peers that is more suited to the ongoing demand in Vande Bharat trains and metro systems. Process automation

#### Process automation

- **Performance:** Revenue from the process automation business grew 23% YoY to Rs 6.3bn, as order execution accelerated and exports increased. EBIT margin fell 480bps to 12.8%, largely due to an unfavourable revenue mix and lower volumes. In addition, the year-ago quarter had a positive forex impact as opposed to a negative impact in Q4CY23, which further magnified the contraction.
- **Orders:** The segment recorded inflows of Rs 7bn, a 25% fall compared to Q4CY22, though service orders saw a strong uptick. Orders came in from the power, metals and logistics sectors, and the backlog at the end of CY23 stood at Rs 28.8bn. Management expects some spillover of orders from the December quarter into Q1 or Q2 of CY24.

#### Robotics and Discrete Automation

- **Performance:** Revenue from robotics and discrete automation grew 71% YoY to Rs 1.1bn as a paint company order was executed during the quarter. Automotive sector orders provided better margins, but this was offset by lower profitability in other businesses, leading to a 450bps YoY contraction in segmental EBIT margin.
- **Orders:** Order inflows declined 53% YoY to Rs 570mn for the quarter and the segment closed CY23 with a Rs 1.9bn order backlog. The automotive and electronics sectors contributed to inflows, along with service orders. With increasing automation and technology requirements in manufacturing industries, ABB expects its robotics segment to maintain a healthy pace of growth.

## Valuation methodology

ABB's performance has improved significantly over the last few quarters, and management commentary points to strong momentum going forward. We raise our CY24/CY25 EPS estimates by 6% each to account for the strong December quarter margins and order flows. We continue to value the stock at 70x P/E – in line with the five-year mean – and roll valuations forward to Dec'25E. Along with estimate revision, this yields a higher TP of Rs 5,000 (vs. Rs 4,700). We retain HOLD on limited upside potential and await a better entry point.

**Fig 12 – Revised estimates**

Particulars (Rs mn)	New		Old		Change (%)	
	CY24E	CY25E	CY24E	CY25E	CY24E	CY25E
Sales	1,30,241	1,39,540	1,29,144	1,38,594	0.8	0.7
EBITDA	18,038	18,658	17,504	18,118	3.1	3.0
PAT	14,547	15,064	13,739	14,229	5.9	5.9
EPS (Rs)	68.6	71.1	64.8	67.1	5.9	5.9
EBITDA margin (%)	13.9	13.4	13.6	13.1	30bps	30bps

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	11.7	4,525	5,000	HOLD
AIA Engineering	AIAE IN	4.4	3,876	4,000	HOLD
Hitachi Energy	POWERIND IN	3.1	6,103	4,200	SELL
KEC International	KECI IN	2.1	655	700	HOLD
Larsen & Toubro	LT IN	57.4	3,357	4,200	BUY

Source: BOBCAPS Research, NSE | Price as of 20 Feb 2024

## Financials

### Income Statement

Y/E 31 Dec (Rs mn)	CY21A	CY22A	CY23P	CY24E	CY25E
<b>Total revenue</b>	<b>69,340</b>	<b>85,675</b>	<b>1,04,465</b>	<b>1,30,241</b>	<b>1,39,540</b>
EBITDA	5,567	9,619	14,898	18,038	18,658
Depreciation	1,027	1,047	1,199	1,317	1,382
EBIT	4,540	8,572	13,699	16,722	17,276
Net interest inc./(exp.)	107	131	127	139	146
Other inc./(exp.)	1,596	1,795	3,017	2,866	3,009
Exceptional items	0	0	0	0	0
EBT	6,029	10,235	16,589	19,448	20,139
Income taxes	1,597	3,372	4,107	4,901	5,075
Extraordinary items	(892)	(3,393)	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>5,325</b>	<b>10,256</b>	<b>12,482</b>	<b>14,547</b>	<b>15,064</b>
Adjustments	(892)	(3,393)	0	0	0
<b>Adjusted net profit</b>	<b>4,433</b>	<b>6,864</b>	<b>12,482</b>	<b>14,547</b>	<b>15,064</b>

### Balance Sheet

Y/E 31 Dec (Rs mn)	CY21A	CY22A	CY23P	CY24E	CY25E
Accounts payables	19,613	26,368	31,091	35,682	38,230
Other current liabilities	20,244	17,015	18,850	23,501	25,179
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	72,192	85,879
Shareholders' fund	40,452	49,394	59,446	72,616	86,303
<b>Total liab. and equities</b>	<b>80,727</b>	<b>93,182</b>	<b>1,10,012</b>	<b>1,32,224</b>	<b>1,50,137</b>
Cash and cash eq.	26,877	36,422	48,162	42,093	57,563
Accounts receivables	16,950	20,930	25,443	31,721	33,986
Inventories	10,091	14,207	15,608	19,459	20,848
Other current assets	12,436	7,427	6,263	23,261	24,922
Investments	0	0	0	0	0
Net fixed assets	8,170	8,992	9,755	10,238	10,656
CWIP	769	693	599	747	800
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	5,435	4,512	4,183	4,706	1,362
<b>Total assets</b>	<b>80,727</b>	<b>93,182</b>	<b>1,10,012</b>	<b>1,32,224</b>	<b>1,50,137</b>

### Cash Flows

Y/E 31 Dec (Rs mn)	CY21A	CY22A	CY23P	CY24E	CY25E
<b>Cash flow from operations</b>	<b>6,492</b>	<b>7,419</b>	<b>13,515</b>	<b>(2,020)</b>	<b>15,357</b>
Capital expenditures	(1,358)	(1,479)	(1,831)	(1,800)	(1,800)
Change in investments	(19,670)	18,399	(34,461)	(148)	(53)
Other investing cash flows	950	1,342	2,770	(523)	3,344
<b>Cash flow from investing</b>	<b>(20,079)</b>	<b>18,262</b>	<b>(33,522)</b>	<b>(2,471)</b>	<b>1,491</b>
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)
<b>Cash flow from financing</b>	<b>(1,268)</b>	<b>(1,402)</b>	<b>(2,695)</b>	<b>(1,578)</b>	<b>(1,377)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(14,855)</b>	<b>24,280</b>	<b>(22,701)</b>	<b>(6,069)</b>	<b>15,470</b>
<b>Closing cash &amp; cash eq.</b>	<b>26,877</b>	<b>36,422</b>	<b>48,162</b>	<b>42,093</b>	<b>57,563</b>

### Per Share

Y/E 31 Dec (Rs)	CY21A	CY22A	CY23P	CY24E	CY25E
Reported EPS	25.1	48.4	58.9	68.6	71.1
Adjusted EPS	20.9	32.4	58.9	68.6	71.1
Dividend per share	5.2	5.2	29.3	6.5	6.5
Book value per share	190.9	233.1	280.5	342.7	407.3

### Valuations Ratios

Y/E 31 Dec (x)	CY21A	CY22A	CY23P	CY24E	CY25E
EV/Sales	13.8	11.2	9.2	7.4	6.9
EV/EBITDA	172.2	99.7	64.3	53.1	51.4
Adjusted P/E	216.3	139.7	76.8	65.9	63.6
P/BV	23.7	19.4	16.1	13.2	11.1

### DuPont Analysis

Y/E 31 Dec (%)	CY21A	CY22A	CY23P	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	116.3	116.6
EBIT margin (EBIT/Revenue)	6.5	10.0	13.1	12.8	12.4
Asset turnover (Rev./Avg TA)	88.5	98.5	102.8	107.5	98.8
Leverage (Avg TA/Avg Equity)	2.0	1.9	1.9	1.8	1.8
Adjusted ROAE	11.6	15.3	22.9	22.0	19.0

### Ratio Analysis

Y/E 31 Dec	CY21A	CY22A	CY23P	CY24E	CY25E
<b>YoY growth (%)</b>					
Revenue	19.1	23.6	21.9	24.7	7.1
EBITDA	105.3	72.8	54.9	21.1	3.4
Adjusted EPS	138.4	54.8	81.9	16.5	3.6
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	8.0	11.2	14.3	13.9	13.4
EBIT margin	6.5	10.0	13.1	12.8	12.4
Adjusted profit margin	6.4	8.0	11.9	11.2	10.8
Adjusted ROAE	11.6	15.3	22.9	22.0	19.0
ROCE	0.0	0.0	0.0	0.0	0.0
<b>Working capital days (days)</b>					
Receivables	89	89	89	89	89
Inventory	53	61	55	55	55
Payables	103	112	109	100	100
<b>Ratios (x)</b>					
Gross asset turnover	6.1	6.4	6.8	7.6	7.3
Current ratio	1.7	1.8	1.9	2.0	2.2
Net interest coverage ratio	42.4	65.4	108.2	120.1	118.1
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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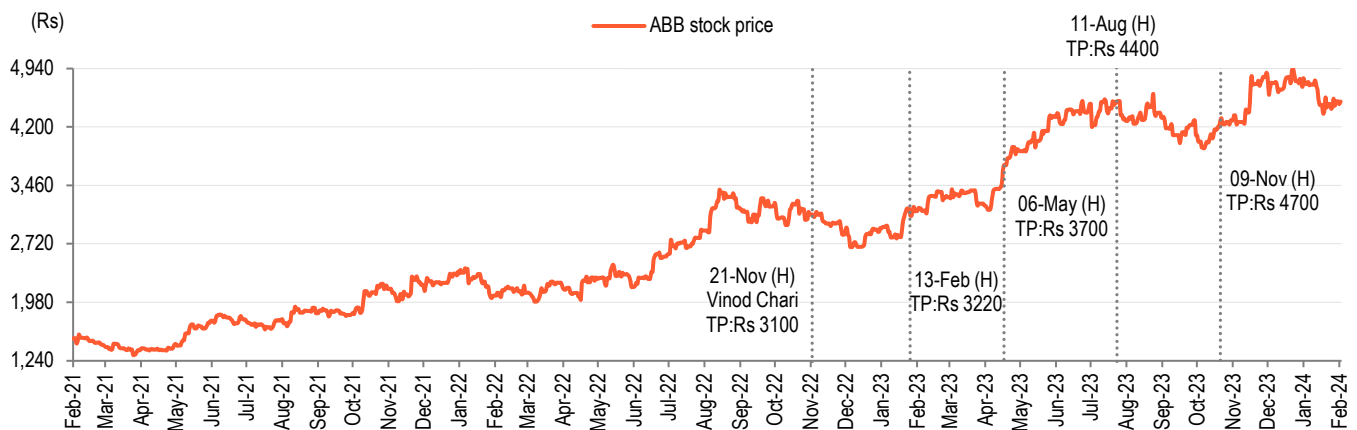
### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

- 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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