SELL (Downgrade from ADD)

CMP: **INR 6,645** Target Price: **INR 5,330 (INR 5,500)** ▼ -20%

ICICI Securities

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18 April 2024

India | Equity Research | Company Update

ABB India

Capital Goods

Times of uncertainty

The order inflow for ABB came in strong at INR 61bn, +24% YoY, in H2CY23 led by long lead items. As a result, the share of long lead orders has increased substantially to 15% as of CY23 (vs 7% in CY22). Also, order inflow growth print over the next 1-2 quarters is shrouded by general elections led (Apr-Jun'24) uncertainty. Thus, we believe the growth print for order inflow over CY24E is likely to be sub–par. The margins may have peaked; weakness in revenue growth can reduce the levers for any further margin surprises. The stock price has jumped sharply at 45% over the last 2 months and is now trading at ~81x CY25E EPS of INR 82/share as compared to average historical 2-year forward P/E of 60x. We note the PEG of the stock stands at 3x (vs its 2-year forward PEG of 2x). Thus, we downgrade ABB to **SELL** (from *ADD*) with target price of INR 5,330/share, valuing the stock at 65x CY25E EPS.

Order inflow in H2CY23 rose 24% led by long lead items

ABB's order inflow has remained healthy in CY23 at INR 123bn (vs INR 100bn YoY), with orderbook growing 29% YoY to INR 83.4bn. However, the share of long lead orders has increased to 15% as of Dec'23 (vs 7% in CY22). Thus, assuming 15% long lead order inflow in CY24, adjusted order inflow has grown at 8% YoY to INR 108bn (vs headline growth of 29%).

Order inflow uncertain in H1CY24 owing to general elections

Given the general election uncertainty and the delays pertaining to it, we believe order inflow in H1CY24E may remain subdued on high base of last year. Thus, we expect revenue growth to remain muted in CY24E. Moreover, we believe operating margin may have peaked as most gains pertaining to easing raw material cost have been realised.

Sharp run up in the stock price; trading at 81x CY25E

The stock is currently trading at a huge premium of 81x CY25E EPS of INR 82/share as compared to average historical valuation of 60x – 2-year forward earnings (refer Exhibit 2).

Downgrade to SELL

While there is a lot to like about ABB's business, its share price has risen 45% over the past 2 months, leaving limited scope for an upside to our target price. Thus, we downgrade ABB to **SELL** (from *ADD*) with target price of INR 5,330/share, valuing the stock at 65x CY25E EPS.

Financial Summary

Y/E December (INR mn)	CY22A	CY23A	CY24E	CY25E
Net Revenue	85,675	104,465	121,610	151,762
EBITDA	9,619	14,840	16,647	21,207
EBITDA Margin (%)	11.2	14.2	13.7	14.0
Net Profit	10,256	12,408	13,722	17,341
EPS (INR)	36.4	58.5	64.7	81.8
EPS % Chg YoY	66.9	80.8	10.6	26.4
P/E (x)	182.7	113.5	102.7	81.2
EV/EBITDA (x)	142.7	91.7	81.2	63.1
RoCE (%)	15.5	23.0	21.0	21.8
RoE (%)	22.8	22.8	20.9	21.7

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Market Data

Market Cap (INR)	1,408bn
Market Cap (USD)	16,842mn
Bloomberg Code	ABB IN
Reuters Code	ABB.BO
52-week Range (INR)	6,773 /3,137
Free Float (%)	25.0
ADTV-3M (mn) (USD)	33.4

Price Performance (%)	3m	6m	12m
Absolute	38.2	55.2	106.0
Relative to Sensex	38.4	44.9	95.3

Earnings Revisions (%)	CY24E	CY25E
Revenue	(5.6)	(1.5)
EBITDA	(10.2)	(5.4)
EPS	(11.0)	(5.7)

Previous Reports

22-02-2024: Q4CY23 results review
10-11-2023: Q3CY23 results review

Outlook and valuation

We believe ABB India (ABB) may be one of the major beneficiaries of increasing investments in automation, digitisation, productivity and efficiency. The government's strong capex push in areas of renewables, water & waste water, manufacturing, infrastructure, warehouse & logistics, electrical vehicles, transport infrastructure, etc., augurs well for ABB's growth led by its highly diversified product portfolio.

However, long lead orders in its current orderbook of INR 83bn have increased to 15% in CY23 as compared to 7% in CY22. Order inflow outlook over the next couple of quarters too is looking a bit weak given the general election uncertainty. Thus, we believe, revenue growth is likely to witness challenges in CY24E and most of the benefits of lower raw material cost have already been realised. Therefore, we reduce our CY24E, CY25E revenue estimates by 5.6% and 1.5%, and profit estimates by 11% and 6%, respectively.

Given the sharp run up of 45% in the stock price over the last 2 months, the stock is now trading at 81x CY25E EPS of INR 82/share (as compared to average valuation of 39x FY25E for our coverage universe). Thus, we downgrade ABB to **SELL** (from *ADD*) with target price of INR 5,330/share, valuing the stock at 65x CY25E EPS of INR 82/share.

Key risks: Strong order inflow over the next 2 quarters and further reduction in raw material prices.

Exhibit 1: Earning revision table (INR mn)

	CY24E			CY25E		
	Previous	Revised	Var (%)	Previous	Revised	Var (%)
Revenue	128,761	121,610	(5.6)	154,069	151,762	(1.5)
EBIDTA	18,540	16,647	(10.2)	22,412	21,207	(5.4)
PAT	15,420	13,722	(11.0)	18,383	17,341	(5.7)

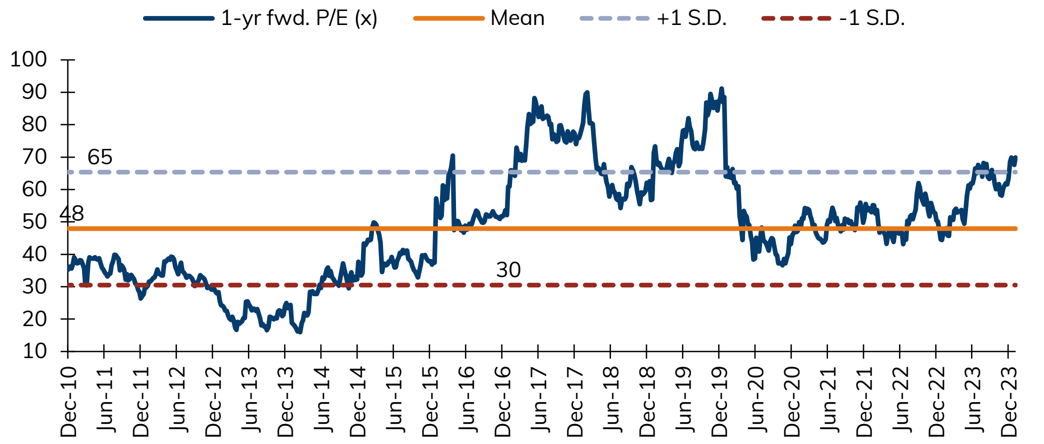
Source: I-Sec research

Exhibit 2: Valuation table for our coverage universe

S.No.	Bloom Code	Companies	Price (INR)	EPS (INR) FY26E	P/E (x) FY26E	P/BV (x) FY26E	EV/EBITDA (x) FY26E	ROE (%)
1	ABB	ABB	6645	86.7	76.6	15.5	62.9	20.3%
2	SIEM	Siemens	5532	73.3	75.5	-	59.6	15.6%
3	BHEL	Bhel	258	8.5	30.5	3.1	19.9	10.0%
4	KKC	Cummins	3121	76.4	40.8	9.7	38.9	23.7%
5	TMX	Thermax	4672	72.7	64.3	9.8	47.9	15.3%
6	SUEL	Suzlon	40	1.4	28.3	10.8	20.1	38.2%
7	HWA	Honeywell	44728	858.4	52.1	8.3	40.1	15.9%
8	AIAE	AIA	3815	133.4	28.6	4.7	21.6	16.4%
9	CUMI	Carborundum	1239	39.7	31.2	5.2	22.1	16.8%
10	GETD	GE T&D	915	17.5	52.3	12.7	35.7	24.4%
11	GWN	Grindwell	2077	47.5	43.7	7.6	31.5	17.4%
12	INOX Wind	Inox Wind	549	26.3	20.9	6.1	19.5	29.2%
13	KECI	KEC	701	36.8	19.0	3.3	10.4	17.6%
14	ENGR	Engineers India	210	9.2	22.9	4.7	20.0	20.3%
15	INOXINDI	Inox India	1323	34.6	38.3	10.6	28.6	27.8%
16	VAMP	Voltamp	9952	379.2	26.2	5.2	24.9	19.9%
17	TEEC	Techno Electric	860	38.5	22.3	3.5	17.3	15.7%
18	ISGEC	ISGEC	1001	43.2	23.2	2.7	15.0	11.8%
	Average				**38.7**			

Source: I-Sec research

Exhibit 3: 1-Yr forward P/E band



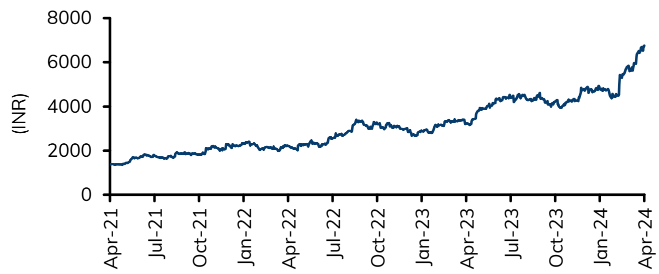
Source: I-Sec research

Exhibit 4: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	75.0	75.0	75.0
Institutional investors	17.5	17.1	17.2
MFs and others	5.0	4.8	4.2
FIs/Banks	1.8	1.4	1.0
FIIs	10.9	10.9	12.0
Others	7.5	7.9	7.8

Source: Bloomberg

Exhibit 5: Price chart



Source: Bloomberg

Financial Summary

Exhibit 6: Profit & Loss

(INR mn, year ending December)

	CY22A	CY23A	CY24E	CY25E
Net Sales	**85,675**	**104,465**	**121,610**	**151,762**
Operating Expenses	20,630	23,600	28,443	35,063
EBITDA	**9,619**	**14,840**	**16,647**	**21,207**
EBITDA Margin (%)	11.2	14.2	13.7	14.0
Depreciation & Amortization	1,047	1,142	1,262	1,342
EBIT	8,572	13,699	15,385	19,865
Interest expenditure	131	127	129	132
Other Non-operating Income	1,795	3,017	3,088	3,450
Recurring PBT	**10,235**	**16,589**	**18,344**	**23,183**
Profit / (Loss) from Associates	**-**	**-**	**-**	**-**
Less: Taxes	3,372	4,180	4,623	5,842
PAT	6,864	12,408	13,722	17,341
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	3,393	-	-	-
Net Income (Reported)	**10,256**	**12,408**	**13,722**	**17,341**
Net Income (Adjusted)	**7,712**	**12,408**	**13,722**	**17,341**

Source Company data, I-Sec research

Exhibit 7: Balance sheet

(INR mn, year ending December)

	CY22A	CY23A	CY24E	CY25E
Total Current Assets	78,260	99,230	123,353	152,838
of which cash & cash eqv.	31,491	48,162	57,416	71,539
Total Current Liabilities & Provisions	43,788	50,566	62,075	75,150
Net Current Assets	**34,471**	**48,664**	**61,278**	**77,688**
Investments	4,932	-	-	-
Net Fixed Assets	8,400	8,792	9,031	8,689
ROU Assets	-	-	-	-
Capital Work-in-Progress	693	560	560	560
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax Assets	-	-	-	-
Total Assets	**48,496**	**58,419**	**70,869**	**86,937**
Liabilities				
Borrowings	**-**	**-**	**-**	**-**
Deferred Tax Liability	**(898)**	**(1,027)**	**(1,027)**	**(1,027)**
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	424	424	424	424
Reserves & Surplus	48,970	59,022	71,472	87,541
Total Net Worth	**49,394**	**59,446**	**71,896**	**87,964**
Minority Interest	-	-	-	-
Total Liabilities	**48,496**	**58,419**	**70,869**	**86,937**

Source Company data, I-Sec research

Exhibit 8: Cashflow statement

(INR mn, year ending December)

	CY22A	CY23A	CY24E	CY25E
Operating Cashflow	**11,706**	**10,520**	**17,117**	**16,526**
Working Capital Changes	272	(3,157)	2,005	(2,288)
Capital Commitments	(6,774)	3,128	(1,097)	(1,000)
Free Cashflow	**18,480**	**7,392**	**18,214**	**17,526**
Other investing cashflow	**-**	**-**	**-**	**-**
Cashflow from Investing Activities	(6,774)	3,128	(1,097)	(1,000)
Issue of Share Capital	(148)	3,855	0	0
Interest Cost	(131)	(127)	(129)	(132)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(1,166)	(6,212)	(1,272)	(1,272)
Others	1,127	5,507	(5,364)	0
Cash flow from Financing Activities	(319)	3,023	(6,765)	(1,404)
Chg. in Cash & Bank balance	**4,613**	**16,671**	**9,255**	**14,123**
Closing cash & balance	31,491	48,162	57,416	71,539

Source Company data, I-Sec research

Exhibit 9: Key ratios

(Year ending December)

	CY22A	CY23A	CY24E	CY25E
Per Share Data (INR)				
Reported EPS	32.4	58.5	64.7	81.8
Adjusted EPS (Diluted)	36.4	58.5	64.7	81.8
Cash EPS	53.3	63.9	70.7	88.1
Dividend per share (DPS)	4.0	4.0	4.4	4.8
Book Value per share (BV)	233.0	280.4	339.1	414.9
Dividend Payout (%)	12.4	6.8	6.8	5.9
Growth (%)				
Net Sales	23.6	21.9	16.4	24.8
EBITDA	72.8	54.3	12.2	27.4
EPS (INR)	66.9	80.8	10.6	26.4
Valuation Ratios (x)				
P/E	182.7	113.5	102.7	81.2
P/CEPS	41.3	63.9	70.7	88.2
P/BV	28.5	23.7	19.6	16.0
EV / EBITDA	(3.8)	(3.2)	(3.4)	(3.4)
P / Sales	-	-	-	-
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	35.3	36.8	37.1	37.1
EBITDA Margins (%)	11.2	14.2	13.7	14.0
Effective Tax Rate (%)	32.9	25.2	25.2	25.2
Net Profit Margins (%)	8.0	11.9	11.3	11.4
NWC / Total Assets (%)	0.1	0.0	0.1	0.1
Net Debt / Equity (x)	(0.7)	(0.8)	(0.8)	(0.8)
Net Debt / EBITDA (x)	(3.8)	(3.2)	(3.4)	(3.4)
Profitability Ratios				
RoCE (%)	15.5	23.0	21.0	21.8
RoE (%)	22.8	22.8	20.9	21.7
RoIC (%)	15.5	23.0	21.0	21.8
Fixed Asset Turnover (x)	10.8	12.2	13.6	17.1
Inventory Turnover Days	67	60	65	67
Receivables Days	99	98	102	105
Payables Days	145	133	124	126

Source Company data, I-Sec research

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