

ABB India

Estimate changes

TP change

Rating change



Bloomberg	ABB IN
Equity Shares (m)	212
M.Cap.(INRb)/(USDb)	1521.2 / 18.2
52-Week Range (INR)	7218 / 3786
1, 6, 12 Rel. Per (%)	11/56/68
12M Avg Val (INR M)	1680

Financials Snapshot (INR b)

Y/E DEC	CY24E	CY25E	CY26E
Net Sales	134.7	169.2	203.3
EBITDA	23.5	29.3	33.8
PAT	19.2	23.7	27.4
EPS (INR)	90.5	111.9	129.2
GR. (%)	53.7	23.5	15.5
BV/Sh (INR)	364.0	467.4	586.3

Ratios

ROE (%)	28.1	26.9	24.5
RoCE (%)	28.2	27.0	24.6

Valuations

P/E (X)	79.3	64.2	55.6
P/BV (X)	19.7	15.4	12.2
EV/EBITDA (X)	62.2	49.3	42.1
Div Yield (%)	0.3	0.3	0.4

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	75.0	75.0	75.0
DII	6.0	6.9	9.0
FII	11.9	10.7	8.5
Others	7.2	7.4	7.6

FII Includes depository receipts

CMP: INR7,178
TP: INR8,500 (+18%)
Buy

Poised for a long growth runway

ABB India's 1QCY24 results were much ahead of our estimates, driven largely by strong improvement in margin. Our thesis, as highlighted in our latest AR2023 update ([link](#)), of margin improvement is playing out quite well and we expect the company to keep benefiting from its pricing advantage, operating leverage gain, improving product mix toward higher-margin segments, and a wide product portfolio. We expect a large part of these gains to sustain in the coming years amid a strong demand scenario. We increase our estimates for CY24/25/26 by 23%/24%/20% to bake in 1QCY24 performance and higher margins. We increase our TP to INR8,500 (from INR7,500), implying a P/E of 70x on Jun'26E EPS. We maintain BUY and ABB remains our top pick in the sector.

Results were far ahead of our estimates

ABB's 1QCY24 revenue was largely in line with our estimate at INR30.8b (+28% YoY/12% QoQ). This was driven Electrification (+30% YoY), Process Automation (+73% YoY) and Robotics & Motion (+8% YoY). Gross margin at 40.2% saw a healthy ~390bp YoY/270bp QoQ expansion, likely led by a superior product mix, improved pricing power, higher share of services and exports, localization, and better control over supply chain costs. Employee costs moved up due to annual salary revisions and headcount increase. Other expenses as % of sales came down due to better operating leverage and a one-time favorable tax refund. The overall share of services moved up to 16% (from 13% in 1QCY23). All these factors led to all-time high EBITDA margin of 18.3% (+650bp YoY/+320bp QoQ), ahead of our estimates. Aided by a robust cash balance (INR50.4b), other income grew by 21% YoY. This led to PAT growth of 87% YoY at INR4.6b. Order inflow at INR36.1b jumped 15% YoY, while the order book stood at INR89.3b (+25% YoY). Among the segments, electrification and process automation witnessed 34%/17% YoY order inflow improvement, while inflows declined YoY in motion and robotics on delays in decision-making on system orders. PBIT margins improved sharply across all segments.

1QCY24 margin outperformance driven by several levers

ABB's margins have surprised positively across segments on continued benefit of several levers. EBITDA margin for 1QCY24 stood at 18.3% (+650bp YoY), far ahead of our estimates. This margin outperformance is driven by 1) operating leverage on higher volumes, 2) seamless execution of cost improvement initiatives, 3) positive price impact to pass on inflation and cost increase, 4) higher share of service and export revenues, 5) stable currency and commodity price level.

ABB India surpasses parent in overall revenue growth and segmental margins

ABB India's order inflow and revenues grew by 15% and 28% YoY, respectively, in 4Q, far ahead of its global parent's growth in inflows and revenue (which stood at -4%/+2% YoY for 1QCY24). Global parent inflow growth was impacted by a decline in markets like US (-3% YoY), Europe (-9% YoY) and China (-18% YoY), while Indian markets grew at a faster pace. It was driven by continued demand growth in India, coupled with demand from parent group companies outside India as well as third-party customers outside India. Increased market penetration, a wide product portfolio and global offshoring help the company grow its inflows faster than parent. ABB has positioned itself rightly in domestic markets to benefit from private capex, industrial automation, PLI-led capex, global offshoring, improved energy demand, and technological advancements across user industries. ABB India's segmental margins have also now surpassed those of the parent (Ref Exhibit 13).

Margin improvement is progressing well

Our thesis of further scope for margin improvement, as highlighted in our AR2023 update ([link](#)), is progressing well. ABB is benefiting well from its advantageous position as one of the top five to six players in its critical segments, such as electrification, automation, and data centers. With ABB being a preferred choice as a quality player with full control over the value chain, it is benefiting from improved product mix, higher services share, better operating leverage (despite nearly 8% of sales going to the parent as royalty), IT fee, and group management fee. We thus expect the net impact of the pass-on of lower RM prices and improved product pricing to be favorable for margins. We raise our margin estimates to 17.4%/17.3%/16.6% for CY24/CY25/CY26 to bake in 1QCY24 performance and the favorable demand scenario for ABB.

Valuation and recommendation

ABB is currently trading at 64.2x/55.6x P/E on CY25/CY26 estimates. We expect revenue to grow by 29%/26%/20% in CY24/CY25/CY26 and bake in margins of 17.4%/17.3%/16.6% for the same period, translating into PAT growth of 54%/24%/16% for CY24E/CY25E/CY26E. This results in a PAT CAGR of 30% over CY23-26. We arrive at a revised TP of INR8,500, based on DCF, implying 70x P/E on Jun'26E EPS. The company has one of the best RoIC in the capital goods sector and will continue to benefit from improved addressable market and will improve its share of high-growth segments. We maintain BUY on ABB.

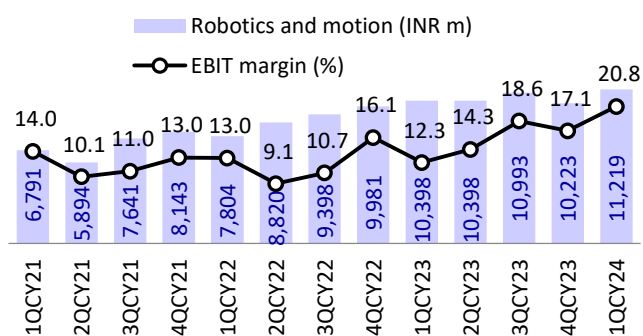
Standalone Quarterly Model

Y/E December	CY22				CY23				CY24	CY23	CY24	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q		1QE	Var (%)
Net Sales	19,684	20,525	21,197	24,269	24,112	25,086	27,692	27,575	30,804	1,04,465	29,646	4
YoY Change (%)	20.8	44.0	19.2	15.5	22.5	22.2	30.6	13.6	27.8	21.9	23.0	
Total Expenditure	17,805	18,538	19,088	20,626	21,259	21,599	23,307	23,403	25,152	89,567	25,367	
EBITDA	1,879	1,988	2,110	3,643	2,853	3,487	4,385	4,172	5,652	14,898	4,280	32
Margins (%)	9.5	9.7	10.0	15.0	11.8	13.9	15.8	15.1	18.3	14.3	14.4	
Depreciation	257	253	269	268	274	292	303	329	314	1,199	324	-3
Interest	15	28	16	72	22	14	9	82	38	127	28	38
Other Income	3,335	186	780	694	723	750	768	776	871	3,017	878	-1
PBT before EO expense	4,943	1,891	2,605	3,996	3,279	3,931	4,842	4,537	6,171	16,589	4,805	28
Extra-Ord expense												
PBT	4,943	1,891	2,605	3,996	3,279	3,931	4,842	4,537	6,171	16,589	4,805	28
Tax	1,212	489	638	943	827	972	1,222	1,085	1,575	4,106	1,211	
Rate (%)	24.5	25.8	24.5	23.6	25.2	24.7	25.2	23.9	25.5	24.8	25.2	
Minority Interest & Profit/Loss of Asso. Cos.												
Reported PAT	3,731	1,403	1,968	3,053	2,452	2,959	3,620	3,452	4,596	12,483	3,594	28
Adj PAT	3,731	1,403	1,968	3,053	2,452	2,959	3,620	3,452	4,596	12,483	3,594	28
YoY Change (%)	164.0	99.7	64.1	62.2	-34.3	110.9	84.0	13.1	87.4	79.5	46.6	
Margins (%)	19.0	6.8	9.3	12.6	10.2	11.8	13.1	12.5	14.9	11.9	12.1	

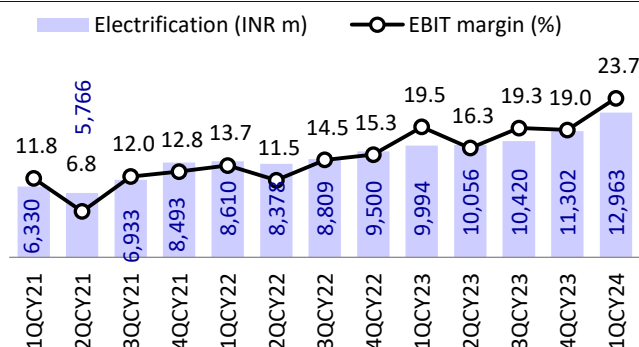
Segmental revenue trend

	CY22				CY23				CY24	CY23
INR m	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	
Segmental revenue										
Robotics & Motion	7,804	8,820	9,398	9,981	10,398	10,398	10,993	10,223	11,219	42,011
YoY Change (%)	14.9	49.6	59.4	22.6	33.2	17.9	17.0	2.4	7.9	16.7
Electrification Products	8,610	8,378	8,809	9,500	9,994	10,056	10,420	11,302	12,963	41,772
YoY Change (%)	36.0	45.3	52.8	11.9	16.1	20.0	18.3	19.0	29.7	18.3
Process Automation	3,421	3,704	3,499	5,108	4,202	5,096	6,756	6,307	7,263	22,361
YoY Change (%)	5.1	38.5	30.8	8.5	22.8	37.6	93.1	23.5	72.9	42.1
Unallocated and others (incl. excise duty)	111	112	49	19	19	53	24	29	26	125
Less: inter-segmental	-261	-490	-557	-339	-500	-517	-502	-286	-667	-1,804
Total revenues	19,684	20,525	21,197	24,269	24,112	25,086	27,692	27,575	30,804	1,04,465
Segmental EBIT										
Robotics & Motion	1,011	799	1,004	1,604	1,275	1,484	2,040	1,746	2,332	6,544
Margin (%)	13.0	9.1	10.7	16.1	12.3	14.3	18.6	17.1	20.8	15.6
Electrification Products	1,180	963	1,280	1,455	1,946	1,640	2,011	2,148	3,078	7,746
Margin (%)	13.7	11.5	14.5	15.3	19.5	16.3	19.3	19.0	23.7	18.5
Process Automation	354	402	350	900	389	568	983	810	1,181	2,749
Margin (%)	10.4	10.8	10.0	17.6	9.2	11.1	14.5	12.8	16.3	12.3
Total	2,546	2,164	2,634	3,959	3,609	3,692	5,034	4,704	6,590	17,039

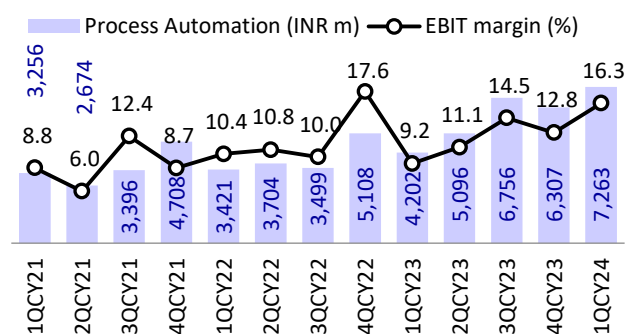
Key Exhibits

Exhibit 1: Robotics and motion segment margin improved on favorable mix and higher share of services

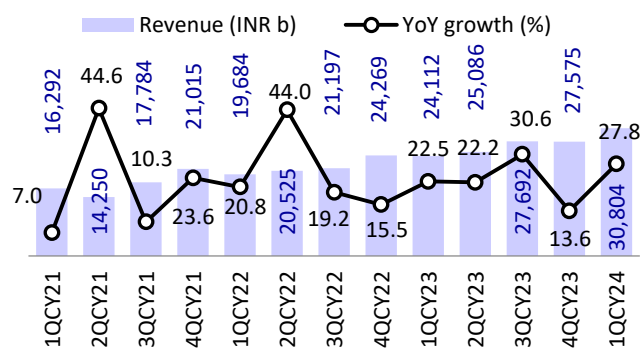
Source: Company, MOFSL

Exhibit 2: Electrification segment margin expanded on improved revenue mix and efficient capacity utilization

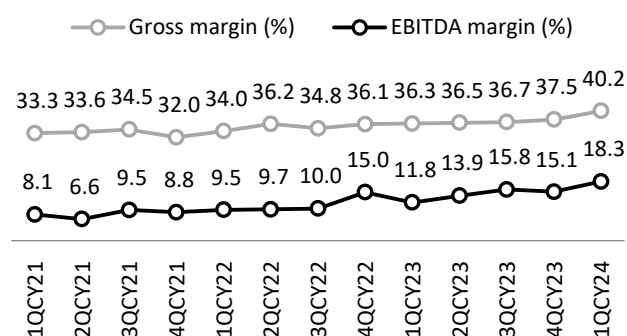
Source: Company, MOFSL

Exhibit 3: Process Automation revenue grew by 73% YoY while margin improved on higher service revenue

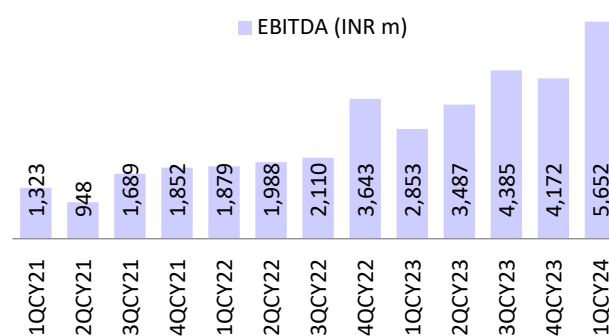
Source: Company, MOFSL

Exhibit 4: Overall revenue grew 28% YoY, driven mainly by electrification and process automation (INR m)

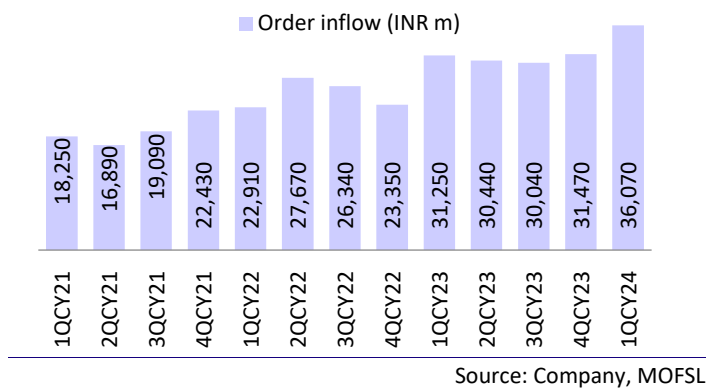
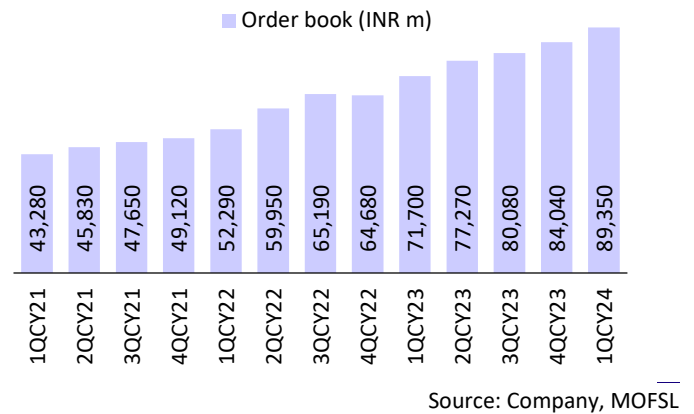
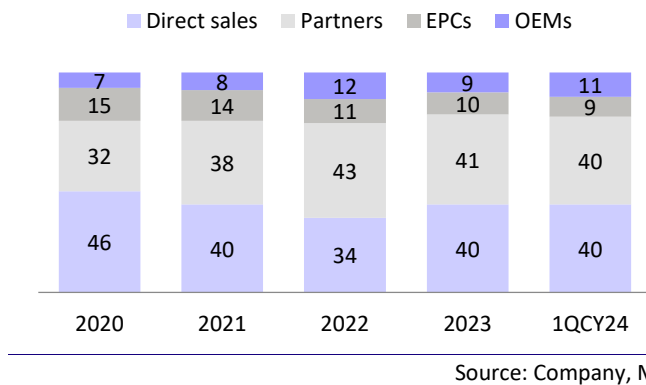
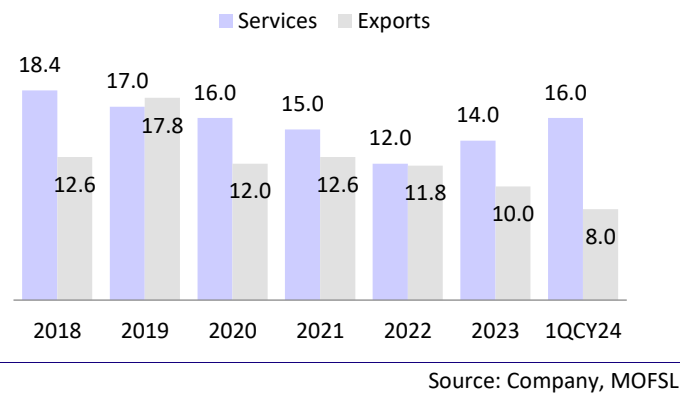
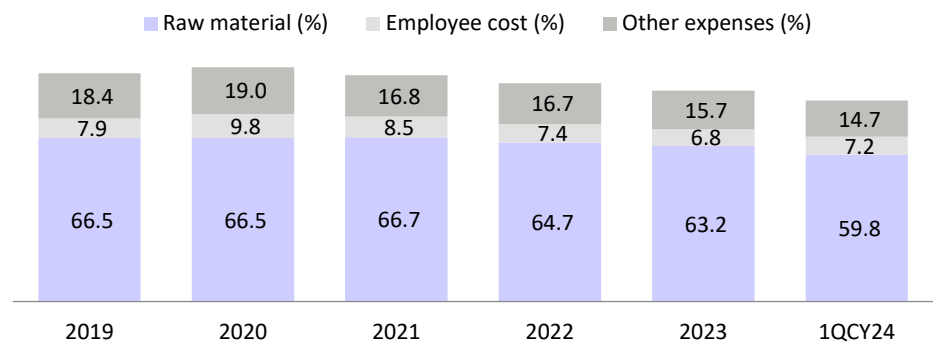
Source: Company, MOFSL

Exhibit 5: EBITDA margin at an all-time high of 18.3%

Source: Company, MOFSL

Exhibit 6: EBITDA grew 98% YoY to INR5.6b

Source: Company, MOFSL

Exhibit 7: Order inflow grew by 15% YoY**Exhibit 8: Leading to a record high order book (+25% YoY)****Exhibit 9: Breakup of revenues by channels over the last four years for ABB (%)****Exhibit 10: Improving share of services in revenues has led to better operating margin (%)****Exhibit 11: Margin improvement over the years is driven by lower RM and better operating leverage (as % of sales)****Exhibit 12: Yearly outgo to parent remains stable around 7.8-8% of net sales (INR m)**

INR m	2017	2018	2019	2020	2021	2022	2023
Royalty and technology fees	1,568	1,745	2,145	1,726	1,987	2,582	3,274
IT fees	1,229	1,934	2,079	1,833	1,830	2,027	2,014
Trademark fees	652	682	807	609	722	973	1088.4
Group management fees	1,010	873	859	695	982	1,114	1,726
Total	4,459	5,234	5,890	4,863	5,521	6,696	8,103
As a % of revenue	7.3	7.8	8.1	8.4	8.0	7.8	7.8

Source: Company, MOFSL

Exhibit 13: ABB has now outpaced parent entity in terms of segmental margins, which is achieved via higher localization (Segment wise margins % - Parent vs ABB India)

	2019	2020	2021	2022	2023	1QCY24
Electrification						
Parent (A)	13.3%	14.1%	16.1%	16.5%	20.1%	22.4%
ABB India (B)	9.8%	4.1%	11.1%	13.8%	18.5%	23.7%
Net margin difference (A-B)	3.5%	10.0%	5.0%	2.7%	1.6%	-1.3%
Motion						
Parent (A)	16.6%	16.8%	17.1%	17.3%	18.9%	18.5%
ABB India (B)	9.2%	5.3%	12.5%	12.3%	15.9%	21.4%
Net margin difference (A-B)	7.4%	11.5%	4.6%	5.0%	3.0%	-2.9%
Process Automation						
Parent (A)	11.7%	7.8%	12.8%	14.0%	14.5%	15.6%
ABB India (B)	6.1%	-5.4%	9.1%	12.8%	12.3%	16.3%
Net margin difference (A-B)	5.6%	13.2%	3.7%	1.2%	2.2%	-0.7%
Robotics and Discrete Automation						
Parent (A)	11.9%	8.2%	10.8%	10.7%	14.7%	13.2%
ABB India (B)	8.8%	3.2%	7.9%	12.5%	12.7%	15.4%
Net margin difference (A-B)	3.1%	5.0%	2.9%	-1.8%	2.0%	-2.2%

Source: Company, MOFSL

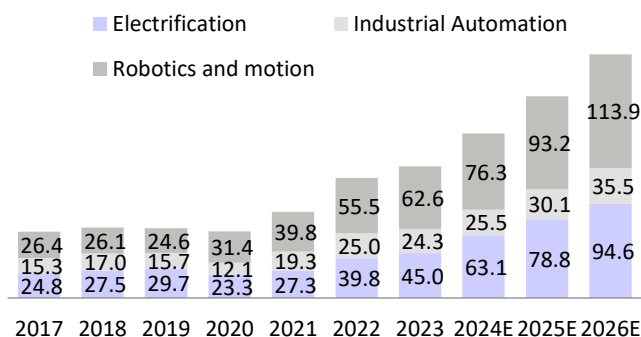
Exhibit 14: We revise our estimates to bake in higher margins

(INR M)	CY24E			CY25E			CY26E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	1,34,718	1,30,050	3.6	1,69,176	1,58,812	6.5	2,03,252	1,89,486	7.3
EBITDA	23,467	18,691	25.6	29,314	23,319	25.7	33,817	28,085	20.4
EBITDA (%)	17.4	14.4	305 bps	17.3	14.7	264 bps	16.6	14.8	182 bps
Adj. PAT	19,185	15,554	23.3	23,703	19,096	24.1	27,372	22,896	19.6
EPS (INR)	90.5	73.4	23.3	111.9	90.1	24.1	129.2	108.1	19.6

Source: MOFSL

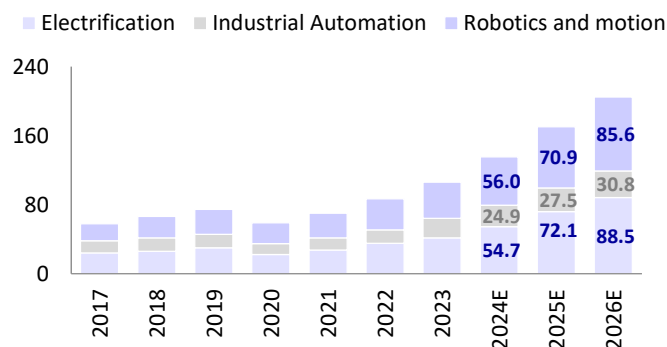
Financial outlook

Exhibit 15: We expect 21% order inflow CAGR over CY23-CY26E (INR b)



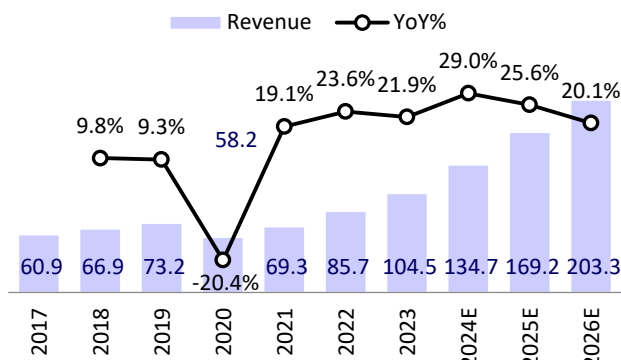
Source: Company, MOFSL

Exhibit 16: Revenue is expected to clock 25% CAGR over CY23-26E (INR b)



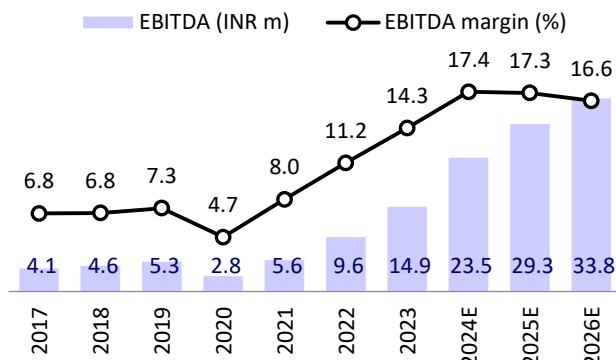
Source: Company, MOFSL

Exhibit 17: Revenue growth has been strong over last few years on healthy inflows (INR b)



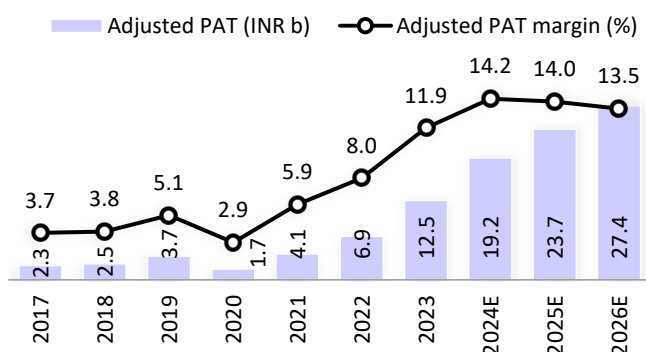
Source: Company, MOFSL

Exhibit 18: We expect 31% EBITDA CAGR over CY23-26E (INR b)



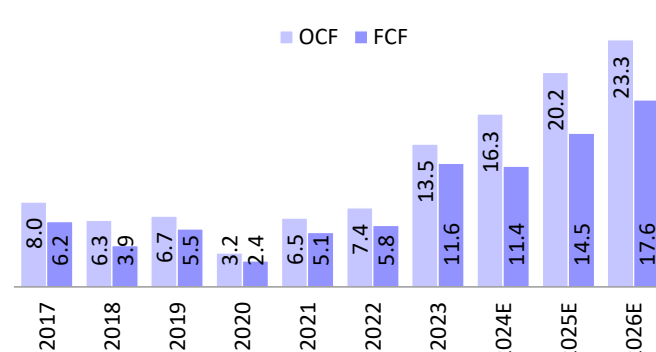
Source: Company, MOFSL

Exhibit 19: PAT is expected to post 30% CAGR over CY23-26E (INR b)



Source: Company, MOFSL

Exhibit 20: FCF and OCF to remain strong on stable working capital (INR b)



Source: Company, MOFSL

Valuation and view

ABB is currently trading at 64.2x/55.6x P/E on CY25/CY26 estimates. We arrive at a revised TP of INR8,500, based on DCF, implying 70x P/E on Jun'26E EPS. ABB remains our top pick in the sector.

Risks and concerns

Global geopolitical and macro factors: Persistently tight crude prices, supply chain-related issues, shifting global trade balance, currency volatility, and inflationary conditions (especially core inflation) will be the key monitorables.

Slowdown in domestic order inflows: Delays in decision-making by key clients and spending on government projects can impact domestic order inflows adversely on both base orders as well as large orders. ABB is trying to mitigate this risk by diversifying across divisions and market segments.

Pricing pressure across segments: Intensified competition and lower-than-expected demand can hurt pricing power of ABB and consequently impact its margins. The company is trying to mitigate this risk by diversifying across high-growth and high-margin segments as well as focusing on increasing exports and services.

Financials and Valuation

Standalone - Income Statement

(INR m)

Y/E Dec	CY20	CY21	CY22	CY23	CY24E	CY25E	CY26E
Total Income from Operations	58,210	69,340	85,675	1,04,465	1,34,718	1,69,176	2,03,252
Change (%)	-20.4	19.1	23.6	21.9	29.0	25.6	20.1
Raw Materials	38,705	46,263	55,426	66,025	85,011	1,06,586	1,27,852
Gross Profit	19,505	23,077	30,249	38,440	49,707	62,590	75,400
Employee Cost	5,680	5,882	6,353	7,152	8,923	11,019	13,359
Other Expenses	11,066	11,627	14,277	16,391	17,317	22,257	28,225
Total Expenditure	55,450	63,773	76,057	89,567	1,11,251	1,39,862	1,69,435
% of Sales	95.3	92.0	88.8	85.7	82.6	82.7	83.4
EBITDA	2,759	5,567	9,619	14,898	23,467	29,314	33,817
Margin (%)	4.7	8.0	11.2	14.3	17.4	17.3	16.6
Depreciation	1,204	1,027	1,047	1,199	1,297	1,642	2,101
EBIT	1,556	4,540	8,572	13,699	22,171	27,672	31,716
Int. and Finance Charges	169	107	131	127	111	112	113
Other Income	1,069	1,596	1,795	3,017	3,589	4,129	4,991
PBT bef. EO Exp.	2,456	6,029	10,235	16,589	25,649	31,689	36,594
EO Items							
PBT after EO Exp.	2,456	6,029	10,235	16,589	25,649	31,689	36,594
Total Tax	739	1,918	3,372	4,107	6,463	7,986	9,222
Tax Rate (%)	30.1	31.8	32.9	24.8	25.2	25.2	25.2
Reported PAT	1,716	4,112	6,863	12,482	19,185	23,703	27,372
Adjusted PAT	1,716	4,112	6,863	12,482	19,185	23,703	27,372
Change (%)	-53.9	139.5	66.9	81.9	53.7	23.5	15.5
Margin (%)	2.9	5.9	8.0	11.9	14.2	14.0	13.5

Standalone – Balance Sheet

(INR m)

Y/E Dec	CY20	CY21	CY22	CY23	CY24E	CY25E	CY26E
Equity Share Capital	424	424	424	424	424	424	424
Total Reserves	35,640	40,028	48,970	59,022	76,707	98,611	1,23,823
Net Worth	36,064	40,452	49,394	59,446	77,131	99,035	1,24,247
Total Loans	0	0	0	0	0	0	0
Deferred Tax Liabilities	-1,172	-939	-898	-1,027	-1,027	-1,027	-1,027
Capital Employed	34,892	39,513	48,496	58,419	76,104	98,008	1,23,220
Gross Block	11,150	11,764	13,432	15,624	20,527	26,263	31,935
Less: Accum. Deprn.	3,469	3,741	4,586	5,831	7,128	8,770	10,871
Net Fixed Assets	7,681	8,024	8,846	9,793	13,399	17,493	21,064
Goodwill on Consolidation	146	146	146	146	146	146	146
Capital WIP	749	769	693	599	599	599	599
Total Investments	1	0	4,932	39,408	39,408	39,408	39,408
Curr. Assets, Loans & Adv.	60,016	70,248	77,668	59,038	90,943	1,25,136	1,63,058
Inventory	8,408	10,091	14,207	15,608	16,764	21,075	25,531
Account Receivables	26,419	25,604	24,451	25,443	40,231	50,521	60,697
Cash and Bank Balance	22,066	26,877	31,491	8,769	22,121	38,811	59,139
Loans and Advances	292	796	921	1,859	2,231	2,677	3,213
Other Current Asset	2,832	6,880	6,599	7,359	9,596	12,051	14,478
Curr. Liability & Prov.	33,701	39,781	43,788	50,566	68,391	84,775	1,01,056
Other Current Liabilities	30,801	36,436	39,956	46,058	62,486	77,359	92,146
Provisions	2,901	3,345	3,832	4,508	5,905	7,416	8,910
Net Current Assets	26,315	30,467	33,880	8,472	22,551	40,361	62,002
Misc Expenditure	0	107	0	0	0	0	0
Appl. of Funds	34,892	39,513	48,496	58,419	76,104	98,007	1,23,220

Financials and Valuation

Ratios

Y/E Dec	CY20	CY21	CY22	CY23	CY24E	CY25E	CY26E
Basic (INR)							
EPS	8.1	19.4	32.4	58.9	90.5	111.9	129.2
Cash EPS	13.8	24.2	37.3	64.6	96.7	119.6	139.1
BV/Share	170.2	190.9	233.1	280.5	364.0	467.4	586.3
DPS	8.7	10.5	12.5	15.1	18.1	21.7	26.0
Payout (%)	125.8	63.0	45.3	29.9	23.3	22.7	23.6
Valuation (x)							
P/E	886.7	370.2	221.7	121.9	79.3	64.2	55.6
Cash P/E	521.2	296.2	192.4	111.2	74.3	60.0	51.6
P/BV	42.2	37.6	30.8	25.6	19.7	15.4	12.2
EV/Sales	25.8	21.6	17.4	14.5	11.1	8.8	7.2
EV/EBITDA	543.6	268.5	154.9	101.6	63.9	50.6	43.3
Dividend Yield (%)	0.1	0.1	0.2	0.2	0.3	0.3	0.4
FCF per share	11.5	24.2	26.7	54.9	53.7	68.3	83.1
Return Ratios (%)							
RoE	4.8	10.7	15.3	22.9	28.1	26.9	24.5
RoCE	5.1	10.9	15.5	23.1	28.2	27.0	24.6
RoIC	7.3	25.9	49.4	98.1	140.4	124.8	109.7
Working Capital Ratios							
Fixed Asset Turnover (x)	5.2	5.9	6.4	6.7	6.6	6.4	6.4
Asset Turnover (x)	1.7	1.8	1.8	1.8	1.8	1.7	1.6
Inventory (Days)	53	53	61	55	45	45	46
Debtor (Days)	166	135	104	89	109	109	109
Leverage Ratio (x)							
Current Ratio	1.8	1.8	1.8	1.2	1.3	1.5	1.6
Interest Cover Ratio	9.2	42.4	65.4	108.2	200.4	247.6	280.7
Net Debt/Equity	-0.6	-0.7	-0.7	-0.8	-0.8	-0.8	-0.8

Cash Flow Statement

(INR Million)

Y/E Dec	CY20	CY21	CY22	CY23	CY24E	CY25E	CY26E
OP/(Loss) before Tax	2,894	7,072	13,503	16,589	25,649	31,689	36,594
Depreciation	1,204	1,027	1,047	1,199	1,297	1,642	2,101
Interest & Finance Charges	-509	-579	-1,137	-2,644	-3,478	-4,017	-4,878
Direct Taxes Paid	-1,033	-1,131	-2,467	-3,667	-6,463	-7,986	-9,222
(Inc)/Dec in WC	-130	1,015	-194	1,696	-728	-1,119	-1,314
CF from Operations	2,427	7,405	10,752	13,173	16,276	20,210	23,281
Others	755	-912	-3,427	285	0	0	0
CF from Operating incl EO	3,182	6,492	7,326	13,458	16,276	20,210	23,281
(Inc)/Dec in FA	-747	-1,358	-1,660	-1,831	-4,902	-5,736	-5,672
Free Cash Flow	2,435	5,134	5,666	11,627	11,374	14,474	17,609
(Pur)/Sale of Investments	3,476	0	19,741	-16	0	0	0
Others	1,695	950	180	2,827	0	0	0
CF from Investments	4,424	-409	18,262	981	-4,902	-5,736	-5,672
Issue of Shares	0	0	0	0	0	0	0
Inc/(Dec) in Debt	-337	-124	0	0	0	0	0
Interest Paid	-169	-85	-300	-364	3,478	4,017	4,878
Dividend Paid	-1,017	-1,060	-1,102	-2,331	-1,500	-1,800	-2,160
CF from Fin. Activity	-1,523	-1,268	-1,402	-2,695	1,978	2,217	2,718
Inc/Dec of Cash	6,084	4,815	24,186	11,744	13,352	16,691	20,327
Opening Balance	15,976	22,066	26,877	31,491	8,769	22,121	38,811
Other Bank Balances	6	-4	-19,573	-34,466			
Closing Balance	22,066	26,877	31,491	8,769	22,121	38,811	59,139

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