

ABB India

Estimate changes



TP change



Rating change



Bloomberg	ABB IN
Equity Shares (m)	212
M.Cap.(INRb)/(USD\$)	1056.3 / 12.7
52-Week Range (INR)	5134 / 3049
1, 6, 12 Rel. Per (%)	3/2/34
12M Avg Val (INR M)	1191

Financials Snapshot (INR b)

Y/E DEC	CY23	CY24E	CY25E
Net Sales	104.5	130.0	158.8
EBITDA	14.9	17.8	22.0
PAT	12.5	14.9	18.1
EPS (INR)	58.9	70.2	85.4
GR. (%)	81.9	19.2	21.6
BV/Sh (INR)	280.5	343.7	420.6

Ratios

ROE (%)	22.9	22.5	22.3
RoCE (%)	23.1	22.6	22.5

Valuations

P/E (X)	84.7	71.1	58.4
P/BV (X)	17.8	14.5	11.9
EV/EBITDA (X)	67.7	56.1	44.8
Div Yield (%)	0.3	0.4	0.4

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	75.0	75.0	75.0
DII	6.9	7.4	9.7
FII	10.7	10.2	7.6
Others	7.4	7.5	7.7

FII Includes depository receipts

CMP: INR4,985

TP: INR5,800 (+16%)

Buy

Benefiting from quality, localization and penetration

ABB's PAT came in ahead of our estimate in 4QCY23, as margins significantly beat our expectation. Revenue growth was lower than our estimate due to a higher share of its long-duration projects business. Order inflows have plateaued over the last four quarters and future growth will depend on how fast the orders are finalized and how fast the private sector recovers. ABB has been benefiting from strong demand for quality players across industries - government or private. With a deeper penetration across market segments and geographies and control over costs via localization, ABB has been able to gain higher margins. We continue to believe that ABB's addressable market is expanding fast across segments like transmission, railways, data center, electronics, and PLI-led capex. We expect the company's margins to remain strong at around 14%. We raise our CY24/CY25 EPS estimates by 2%/4.4% and increase our DCF-based TP to INR5,800 (from INR5,480), implying a P/E of 65x on Mar'26E EPS. ABB remains our top pick in the sector.

Results were ahead of our estimates on strong margin/PAT beat

Revenue grew 14% YoY to INR27.6b, driven by Robotics & Motion (+2%), Electrification (+19%), and Process Automation (+23%). Gross margin at 37.5% expanded ~140bp YoY/80bp QoQ, led by a favorable product mix. EBITDA at INR4.1b clocked 15% YoY growth, while margin stood at 15.1%, flat YoY and down 70bp QoQ. PAT at INR3.4b grew 13% YoY, led by a healthy operational performance. Order inflow stood at INR31.4b (+35% YoY), while the order book stood at INR84b (+30% YoY). On an annual basis, revenue/EBITDA/PAT came in at INR104.4b/INR14.9b/INR12.4b, up 22%/55%/80% YoY. EBITDA margin expanded ~310bp to 14.3%. Cash balance stood at INR48.1b vs. INR31.5b in CY22. FCF generation was INR11.7b (+104% YoY).

Demand outlook remains strong, near-term weakness may persist

ABB is benefiting from demand tailwinds emerging from high-growth areas such as renewables, data centers, railways, metros, and electronics. Although traditional sectors, such as cement, metals, oil & gas, and pharma, are not growing at the desired pace, they still account for the bulk of the order book of ~INR84b. The management indicated that as these sectors gather steam, they will act as growth catalysts going ahead. Overall, the domestic market is expanding at a much faster rate than the export market. We believe that with an expected revival of the private sector, inflows will start ramping up faster, which had been flat in the previous four quarters. So far the company has been benefiting from opex-led orders from the private sector and will now start witnessing capex-led orders from the private sector in few quarters after elections.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Margin expansion driven by product mix, localization and improved penetration

ABB is fairly comfortable about its gross margin, which stood at 36.8% in CY23, and it has achieved these gains through an improved product mix, increased localization, and a deeper penetration in markets, which we believe will sustain. The company intends to maintain its gross margin at this level through value-added products and a deeper penetration in markets despite a higher share of large projects and waning down of RM tailwinds. Improved employee productivity and control over costs led to strong margins of 15.1% despite an adverse impact of forex of INR100m in 4Q.

Segment-wise performance was strong from electrification and process automation

The electrification segment is witnessing strong traction from data centers, OEMs, and major metals and energy players and will also see improved inflows from renewable projects. The motion segment has benefited from large orders for traction motors in 3Q/4QCY23, but its margins were impacted by forex fluctuations on import dependence for drives. We expect the motion segment to continue to benefit from a strong addressable market for railways and metro-related projects. The preference for quality products from ABB is also helping the company tide over aggressive pricing in some segments of motors. Process automation order inflows came from sectors such as power, metals and logistics, and service orders due to the healthy installed base. Robotics has seen delays in finalization, which will start coming in the next few quarters. Overall, we expect ABB to benefit from increasing investments across: 1) electrification – driven by T&D & renewable power (INR2.4t), data center (INR400-500b), and EV charging (INR140b); 2) motion and mobility – led by planned investments by the government in metro, high-speed rail and RRTS (INR5-6t); 3) industrial automation – driven by a surge in investments in smart manufacturing led by PLI (INR4t); and (4) robotics.

Financial outlook

We raise our CY24/CY25 EPS estimates by 2%/4.4% to bake in better margins and higher other income. We expect a CAGR of 18% in ABB's order inflow over CY23-25 and expect a CAGR of 23%/22%/20% in revenue/EBITDA/PAT, driven by EBITDA margin of 13.7%/13.9% in CY24/CY25.

Valuation and recommendation

We increase our DCF-based TP to INR5,800 from INR5,480, implying P/E of 65x on Mar'26E EPS. ABB remains our top pick in the sector.

Standalone - Quarterly Earning Model												(INR m)
Y/E December	CY22				CY23				CY23	CY24E	CY23	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	Var (%)
Net Sales	19,684	20,525	21,197	24,269	24,112	25,086	27,692	27,575	1,04,465	1,30,022	31,866	-13
YoY Change (%)	20.8	44.0	19.2	15.5	22.5	22.2	30.6	13.6	21.9	24.5	31.3	
Total Expenditure	17,805	18,538	19,088	20,626	21,259	21,599	23,307	23,403	89,567	1,12,215	28,347	
EBITDA	1,879	1,988	2,110	3,643	2,853	3,487	4,385	4,172	14,898	17,807	3,518	19
Margins (%)	9.5	9.7	10.0	15.0	11.8	13.9	15.8	15.1	14.3	13.7	11.0	
Depreciation	257	253	269	268	274	292	303	329	1,199	1,293	272	21
Interest	15	28	16	72	22	14	9	82	127	113	67	23
Other Income	3,335	186	780	694	723	750	768	776	3,017	3,491	842	-8
PBT before EO expense	4,943	1,891	2,605	3,996	3,279	3,931	4,842	4,537	16,589	19,892	4,022	13
Extra-Ord expense												
PBT	4,943	1,891	2,605	3,996	3,279	3,931	4,842	4,537	16,589	19,892	4,022	13
Tax	1,212	489	638	943	827	972	1,222	1,085	4,106	5,013	1,030	
Rate (%)	24.5	25.8	24.5	23.6	25.2	24.7	25.2	23.9	24.8	25.2	25.6	
Reported PAT	3,731	1,403	1,968	3,053	2,452	2,959	3,620	3,452	12,483	14,879	2,992	15
Adj PAT	3,731	1,403	1,968	3,053	2,452	2,959	3,620	3,452	12,483	14,879	2,992	15
YoY Change (%)	164.0	99.7	64.1	62.2	-34.3	110.9	84.0	13.1	79.5	19.7	-2.0	
Margins (%)	19.0	6.8	9.3	12.6	10.2	11.8	13.1	12.5	11.9	11.4	9.4	

INR m	CY22				CY23			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Segmental revenue								
Robotics & Motion	7,804	8,820	9,398	9,981	10,398	10,398	10,993	10,223
YoY Change (%)	14.9	49.6	59.4	22.6	33.2	17.9	17.0	2.4
Electrification Products	8,610	8,378	8,809	9,500	9,994	10,056	10,420	11,302
YoY Change (%)	36.0	45.3	52.8	11.9	16.1	20.0	18.3	19.0
Process Automation	3,421	3,704	3,499	5,108	4,202	5,096	6,756	6,307
YoY Change (%)	5.1	38.5	30.8	8.5	22.8	37.6	93.1	23.5
Unallocated and others (incl. excise duty)	111	112	49	19	19	53	24	29
Less: inter-segmental	-261	-490	-557	-339	-500	-517	-502	-286
Total revenues	19,740	20,659	21,340	24,312	24,184	25,162	27,820	27,620
Segmental EBIT								
Robotics & Motion	1,011	799	1,004	1,604	1,275	1,484	2,040	1,746
Margin (%)	13.0	9.1	10.7	16.1	12.3	14.3	18.6	17.1
Electrification Products	1,180	963	1,280	1,455	1,946	1,640	2,011	2,148
Margin (%)	13.7	11.5	14.5	15.3	19.5	16.3	19.3	19.0
Process Automation	354	402	350	900	389	568	983	810
Margin (%)	10.4	10.8	10.0	17.6	9.2	11.1	14.5	12.8
Total	2,546	2,164	2,634	3,959	3,609	3,692	5,034	4,704



Conference call highlights

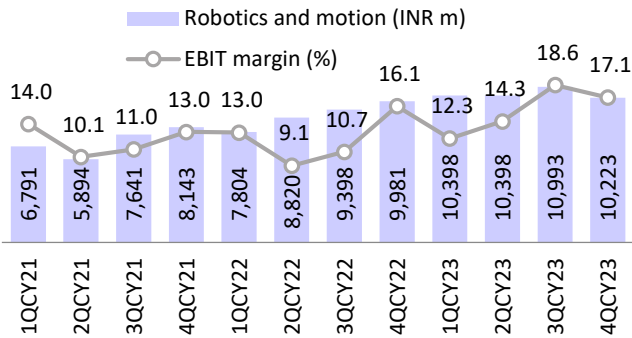
- **Demand:** The company is seeing a turnaround in low-growth segments, which have a substantial share in the current order book. There is a huge expansion in data center capacity (small, medium and large), as the segment has an exponential requirement for uninterrupted power. The company supplies to both domestic and global data centre majors. Similarly, there is robust traction in electronics manufacturing, and the company is seeing healthy demand for robotics, modernisation and allied products.
- **Market scenario:** The domestic market is expanding at a much faster rate than export markets. Although the company intends to maintain its export trajectory, the domestic market will continue to be the mainstay because of the growing opportunity pie.
- **Margins:** CY23 EBITDA margin expanded ~310bp to 14.3% on the back of superior product mix, operating leverage, higher localization, share of services (14% vs 12% in CY22), easing RM inflation and higher volumes. PBT margin was boosted by higher interest income due to robust cash balance (INR48.1b).
- **Ordering:** 4Q had an even mix of large and base orders. There was a large order for traction converters during the quarter. The share of large orders in the order book has doubled to ~15% vs. 7-8% previously, with an execution cycle of ~18-24 months.

Segment-wise

- **Electrification:** Revenue grew 19% YoY owing to higher-value orders and better execution of backlog. Margin improved ~370bp YoY due to higher realizations and efficient capacity utilization. It received key orders from data centers, metals, energy and OEMs. As a short cycle business, it has a faster conversion to revenue. The company is bullish on sectors such as renewable energy, buildings, railways, data centers, and infra to drive growth going ahead.
- **Motion:** Order inflow (+82% YoY) was buoyed by a large order win for traction converters. Revenue declined ~2% YoY on a high base. While margin saw a ~160bp expansion, the sequential drop was on account of an adverse forex impact due to higher import content. There is strong momentum in orders from railways (Vande Bharat) and metros.
- **Process Automation:** Order inflow grew 12% YoY, led by sectors such as power, metals, logistics, etc. and service orders due to the healthy installed base. Revenue grew 23% on the back of higher backlog execution and exports. Margin impacted by an adverse forex movement, while the base quarter had a forex gain.
- **Robotics:** Order inflow declined 53% YoY owing to a delay in finalization, which ABB believes should bounce back in 1QCY24. Revenue was up 71% YoY due to the execution of paints order. Margin contracted ~450bp YoY due to muted margin from consumer and general industry segments.

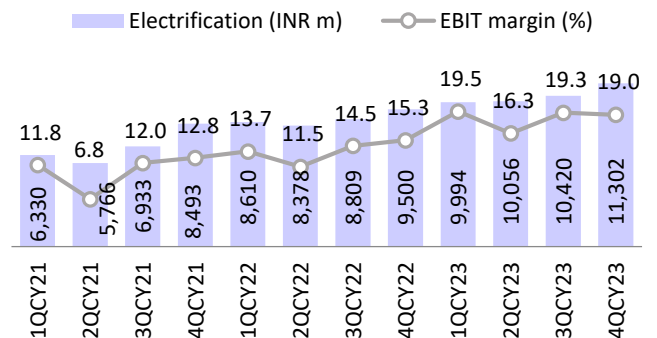
Key Exhibits

Exhibit 1: Margin improved on favorable mix and higher volumes



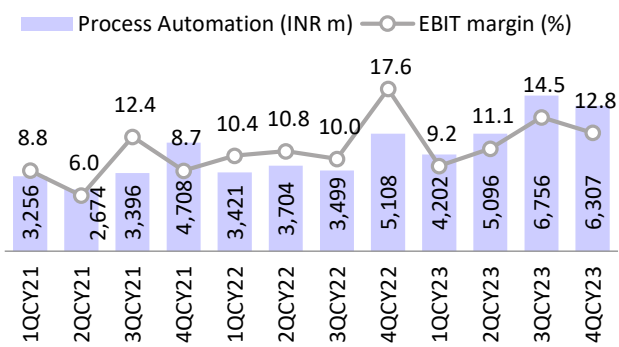
Source: Company, MOFSL

Exhibit 2: Revenue grew 19% led by execution of higher-margin orders, which also buoyed margin



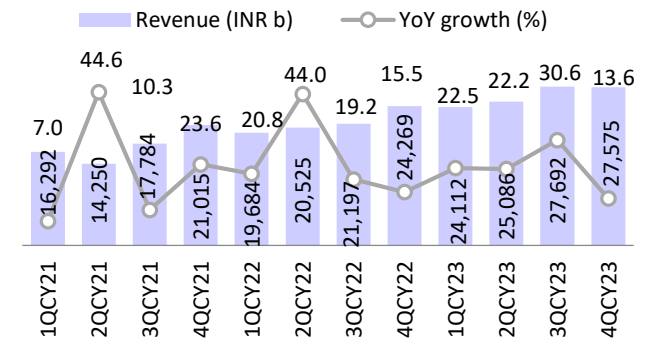
Source: Company, MOFSL

Exhibit 3: Adverse forex impact led to margin contraction, while revenue grew owing to better execution



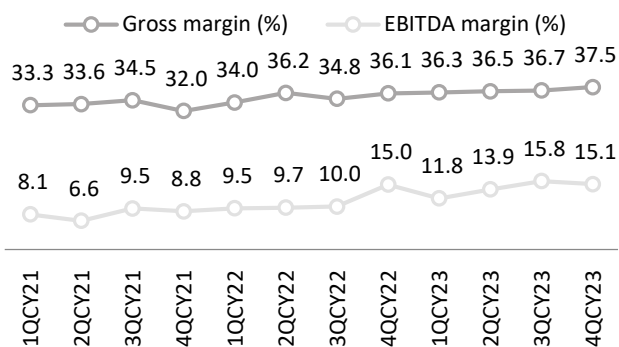
Source: Company, MOFSL

Exhibit 4: Overall revenue grew 14% YoY driven mainly by electrification and process automation (INR m)



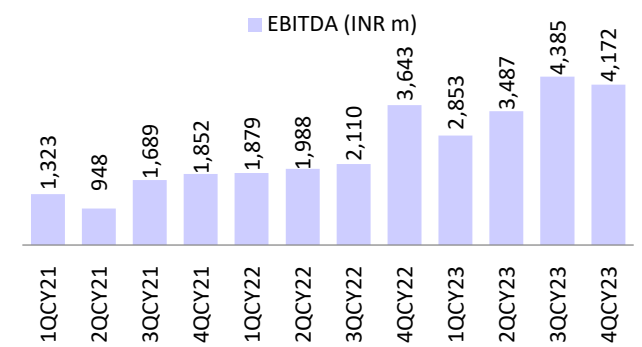
Source: Company, MOFSL

Exhibit 5: EBITDA margin remained strong above 15%



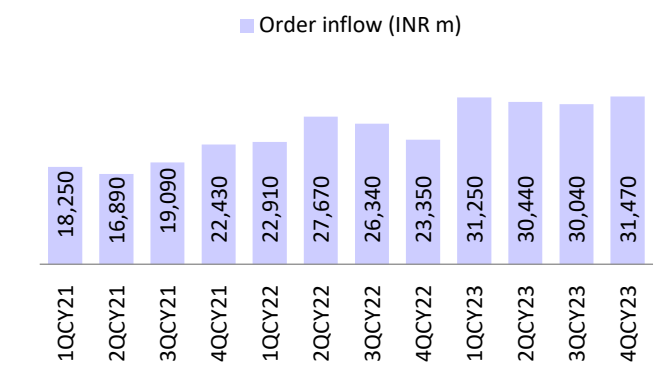
Source: Company, MOFSL

Exhibit 6: EBITDA grew 15% YoY to INR4.2b



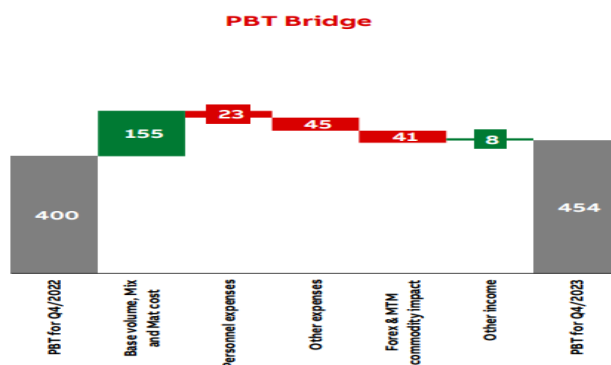
Source: Company, MOFSL

Exhibit 7: Sequential order inflow growth moderated to 5%



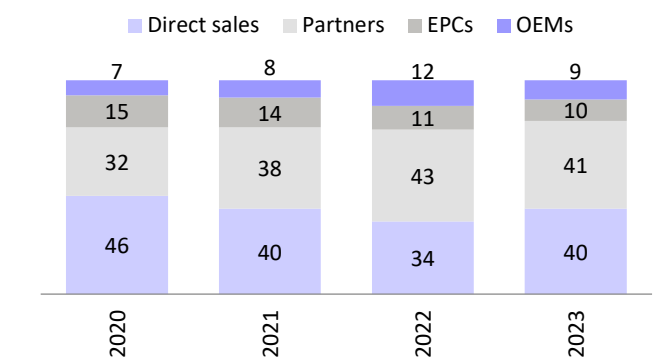
Source: Company, MOFSL

Exhibit 8: There was an adverse forex impact in 4QCY23



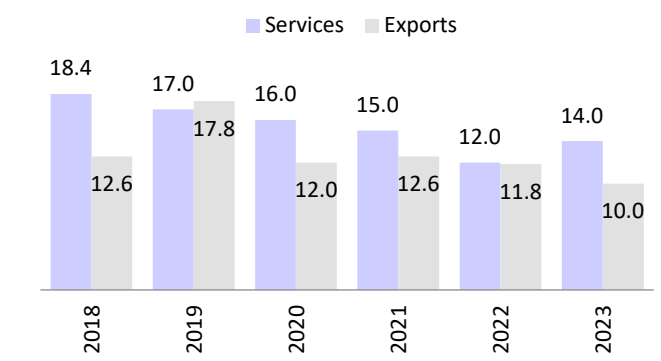
Source: Company, MOFSL

Exhibit 9: Breakup of revenues by channels over last four years for ABB (%)



Source: Company, MOFSL

Exhibit 10: Improving share of services in revenues has led to better operating margin (%)



Source: Company, MOFSL

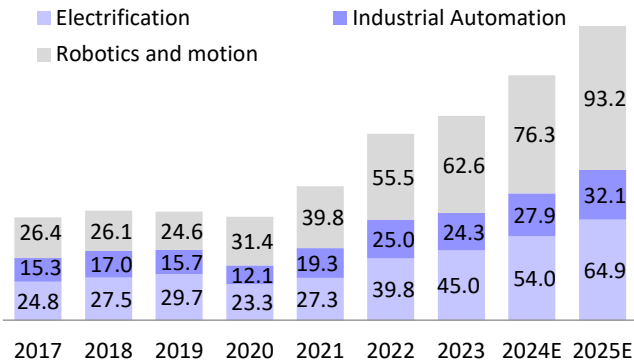
Exhibit 11: We tweak our estimates to bake in improved margins

(INR M)	CY24E			CY25E			CY26E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	1,30,022	1,34,701	(3.5)	1,58,783	1,60,880	(1.3)	1,89,455	1,93,623	(2.2)
EBITDA	17,807	17,754	0.3	22,040	21,387	3.1	26,581	26,036	2.1
EBITDA (%)	13.7	13.2	51bp	13.9	13.3	59bp	14.0	13.4	58bp
Adj. PAT	14,879	14,570	2.1	18,095	17,337	4.4	21,688	21,015	3.2
EPS (INR)	70.2	68.8	2.1	85.4	81.8	4.4	102.4	99.2	3.2

Source: MOFSL

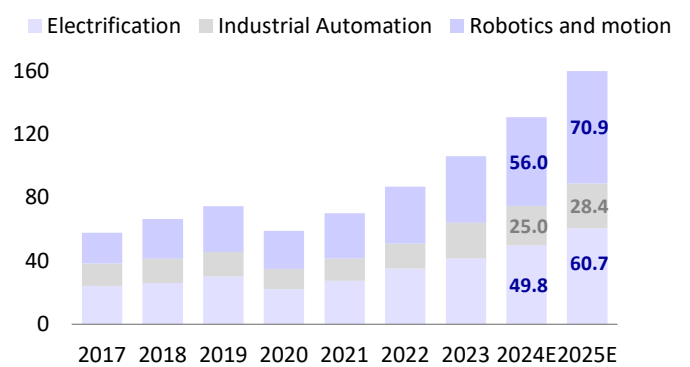
Financial outlook

Exhibit 12: We expect 20% order inflow CAGR over CY23-CY25E (INR b)



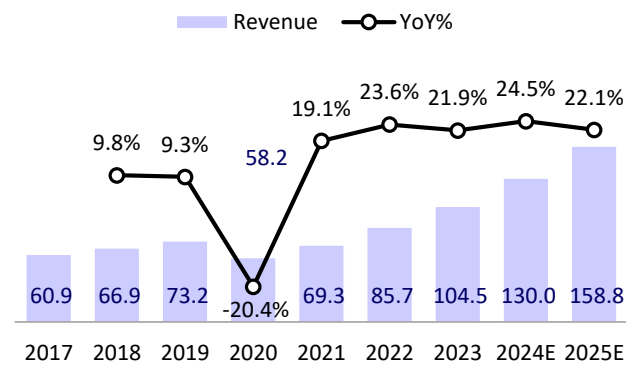
Source: Company, MOFSL

Exhibit 13: Revenue is expected to clock 23% CAGR over CY23-25E (INR b)



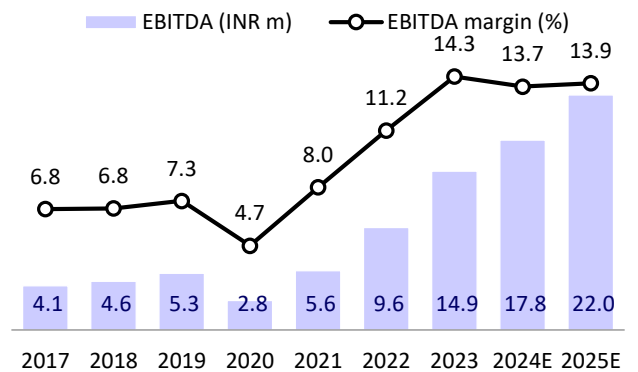
Source: Company, MOFSL

Exhibit 14: Revenue growth has been strong over last few years on healthy inflows (INR b)



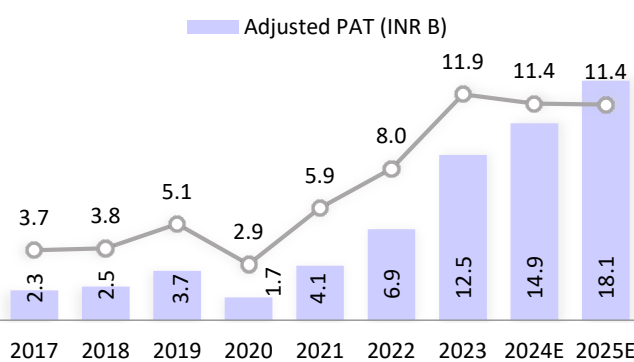
Source: Company, MOFSL

Exhibit 15: We expect 22% EBITDA CAGR over CY23-25E (INR b)



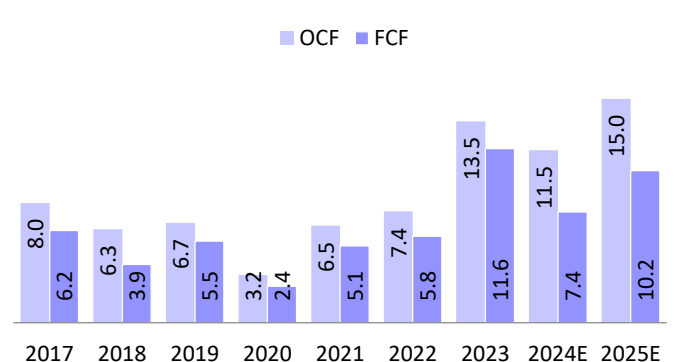
Source: Company, MOFSL

Exhibit 16: PAT is expected to post 20% CAGR over CY23-25E (INR b)



Source: Company, MOFSL

Exhibit 17: FCF and OCF to remain strong on stable working capital (INR b)



Source: Company, MOFSL

Valuation and view

The stock is currently trading at 71x/58.4x P/E on CY24E/CY25E EPS. We increase our DCF-based TP to INR5,800 from INR5,480, implying a P/E of 65x on Mar'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

Income Statement							(INR Million)
Y/E Dec	CY20	CY21	CY22	CY23	CY24E	CY25E	CY26E
Total Income from Operations	58,210	69,340	85,675	1,04,465	1,30,022	1,58,783	1,89,455
Change (%)	-20.4	19.1	23.6	21.9	24.5	22.1	19.3
Raw Materials	38,705	46,263	55,426	66,025	82,048	1,00,038	1,19,173
Gross Profit	19,505	23,077	30,249	38,440	47,974	58,745	70,282
Employee Cost	5,680	5,882	6,353	7,152	8,758	10,480	12,490
Other Expenses	11,066	11,627	14,277	16,391	21,410	26,225	31,210
Total Expenditure	55,450	63,773	76,057	89,567	1,12,215	1,36,743	1,62,873
% of Sales	95.3	92.0	88.8	85.7	86.3	86.1	86.0
EBITDA	2,759	5,567	9,619	14,898	17,807	22,040	26,581
Margin (%)	4.7	8.0	11.2	14.3	13.7	13.9	14.0
Depreciation	1,204	1,027	1,047	1,199	1,293	1,576	1,959
EBIT	1,556	4,540	8,572	13,699	16,514	20,464	24,622
Int. and Finance Charges	169	107	131	127	113	114	115
Other Income	1,069	1,596	1,795	3,017	3,491	3,842	4,488
PBT bef. EO Exp.	2,456	6,029	10,235	16,589	19,892	24,191	28,995
EO Items							
PBT after EO Exp.	2,456	6,029	10,235	16,589	19,892	24,191	28,995
Total Tax	739	1,918	3,372	4,107	5,013	6,096	7,307
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	14,879	18,095	21,688
Adjusted PAT	1,716	4,112	6,863	12,482	14,879	18,095	21,688
Change (%)	-53.9	139.5	66.9	81.9	19.2	21.6	19.9
Margin (%)	2.9	5.9	8.0	11.9	11.4	11.4	11.4

Balance Sheet							(INR Million)
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	72,401	88,697	1,08,225
Net Worth	36,064	40,452	49,394	59,446	72,825	89,120	1,08,649
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	71,798	88,093	1,07,622
Gross Block	11,150	11,764	13,432	15,579	19,703	24,490	29,595
Less: Accum. Deprn.	3,469	3,741	4,586	5,786	7,079	8,655	10,614
Net Fixed Assets	7,681	8,024	8,846	9,793	12,625	15,835	18,981
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	85,275	1,12,152	1,43,268
Inventory	8,408	10,091	14,207	15,608	16,909	20,605	24,543
Account Receivables	26,419	25,604	24,451	25,443	38,828	47,417	56,577
Cash and Bank Balance	22,066	26,877	31,491	8,769	18,045	30,142	45,440
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	9,262	11,311	13,495
Curr. Liability & Prov.	33,701	39,781	43,788	50,566	66,256	80,048	94,781
Account Payables							
Other Current Liabilities	30,801	36,436	39,956	46,058	60,556	73,088	86,476
Provisions	2,901	3,345	3,832	4,508	5,700	6,960	8,305
Net Current Assets	26,315	30,467	33,880	8,472	19,019	32,104	48,487
Misc Expenditure	0	107	0	0	0	0	0
Appl. of Funds	34,892	39,513	48,496	58,419	71,798	88,093	1,07,622

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	70.2	85.4	102.4
Cash EPS	13.8	24.2	37.3	64.6	76.3	92.8	111.6
BV/Share	170.2	190.9	233.1	280.5	343.7	420.6	512.7
DPS	8.7	10.5	12.5	15.1	18.1	21.7	26.0
Payout (%)	125.8	63.0	45.3	29.9	30.1	29.7	29.7
Valuation (x)							
P/E	616.0	257.1	154.0	84.7	71.1	58.4	48.7
Cash P/E	362.1	205.7	133.6	77.3	65.4	53.7	44.7
P/BV	29.3	26.1	21.4	17.8	14.5	11.9	9.7
EV/Sales	17.8	14.9	12.0	10.0	8.0	6.5	5.3
EV/EBITDA	375.2	185.1	106.6	70.4	58.4	46.6	38.1
Dividend Yield (%)	0.2	0.2	0.3	0.3	0.4	0.4	0.5
FCF per share	11.5	24.2	26.7	54.9	34.9	48.0	61.8
Return Ratios (%)							
RoE	4.8	10.7	15.3	22.9	22.5	22.3	21.9
RoCE	5.1	10.9	15.5	23.1	22.6	22.5	22.0
RoIC	7.3	25.9	49.4	98.1	105.6	96.6	91.8
Working Capital Ratios							
Fixed Asset Turnover (x)	5.2	5.9	6.4	6.7	6.6	6.5	6.4
Asset Turnover (x)	1.7	1.8	1.8	1.8	1.8	1.8	1.8
Inventory (Days)	53	53	61	55	47	47	47
Debtor (Days)	166	135	104	89	109	109	109
Creditor (Days)	0	0	0	0	0	0	0
Leverage Ratio (x)							
Current Ratio	1.8	1.8	1.8	1.2	1.3	1.4	1.5
Interest Cover Ratio	9.2	42.4	65.4	108.2	146.5	179.5	213.5
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	19,892	24,191	28,995
Depreciation	1,204	1,027	1,047	1,199	1,293	1,576	1,959
Interest & Finance Charges	-509	-579	-1,137	-2,644	-3,378	-3,728	-4,373
Direct Taxes Paid	-1,033	-1,131	-2,467	-3,667	-5,013	-6,096	-7,307
(Inc)/Dec in WC	-130	1,015	-194	1,696	-1,272	-987	-1,084
CF from Operations	2,427	7,405	10,752	13,173	11,522	14,956	18,190
Others	755	-912	-3,427	285	0	0	0
CF from Operating incl EO	3,182	6,492	7,326	13,458	11,522	14,956	18,190
(Inc)/Dec in FA	-747	-1,358	-1,660	-1,831	-4,124	-4,787	-5,105
Free Cash Flow	2,435	5,134	5,666	11,627	7,398	10,170	13,085
(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	-4,124	-4,787	-5,105
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	3,378	3,728	4,373
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	1,878	1,928	2,213
Inc/Dec of Cash	6,084	4,815	24,186	11,744	9,276	12,098	15,298
Opening Balance	15,976	22,066	26,877	31,491	8,769	18,045	30,142
Other Bank Balances	6	-4	-19,573	-34,466			
Closing Balance	22,066	26,877	31,491	8,769	18,045	30,142	45,440

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