

ABB India

BSE SENSEX
74,743

S&P CNX
22,666

CMP: INR6,697

TP: INR7,500 (+12%)

Buy



Bloomberg	ABB IN
Equity Shares (m)	212
M.Cap.(INRb)/(USD\$b)	1419.7 / 17
52-Week Range (INR)	6748 / 3137
1,6,12 Rel. Per (%)	15/47/68
12M Avg Val (INR M)	1593
Free float (%)	25.0

Financials & Valuations (INR b)

Y/E MARCH	CY24E	CY25E	CY26E
Net Sales	130.1	158.8	189.5
EBITDA	14.4	14.7	14.8
PAT	15.6	19.1	22.9
EPS (INR)	73.4	90.1	108.1
GR. (%)	24.6	22.8	19.9
BV/Sh (INR)	346.9	428.5	526.3

Ratios

ROE (%)	23.4	23.2	22.6
RoCE (%)	23.5	23.3	22.7

Valuations

P/E (X)	91.2	74.3	61.9
P/BV (X)	19.3	15.6	12.7
EV/EBITDA (X)	72.8	57.8	47.4
Div Yield (%)	0.3	0.3	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

Quality versus price

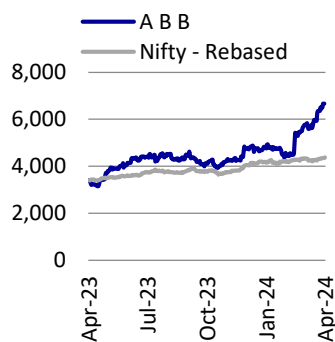
ABB, in its annual report, highlighted its growth strategy to continue targeting high growth profitable markets that benefit from key megatrends. The company's improved penetration into Tier II and Tier III cities, higher localization efforts, benefits from global feeder factories for exports, and improved product portfolio are helping it expand its presence across markets spanning 23 market segments. The company has been able to double its share of orders from high-growth segments in the last five years. ABB has been one of our top picks in the sector and has consistently outperformed on earnings. While the stock is expensive on valuations, it has one of the best RoIC in the capital goods sector. We remain positive on the company and maintain our BUY rating on the stock.

Remain focused on new high growth segments

ABB's order inflow for CY23 was up by 23% YoY, led by orders from diverse sectors, including data centers, electronics, metros, railways, renewables, automotive, water and wastewater, and power distribution. Moreover, the company strengthened its presence in segments such as metals, mining, cement, pulp, and paper through its energy-efficient and eco-friendly solutions. ABB's portfolio has expanded significantly, now serving 23 market segments, comprising both core and emerging sectors, compared to the seven segments before the onset of the COVID-19 pandemic. The share of the emerging segments (data centers, electronics, water, F&B, pharma, warehouse, and logistics, etc.) in the order book has doubled in the last five years. Improved penetration toward tier II-III cities, global feeder factories, product customizations, OEM or channel focus, and local certifications have ensured preference for ABB India products in varied markets.

Targeting opportunities across segments

Electrification and motion continue to remain key segments for ABB. The Annual Report for 2023 highlighted that 1) **Electrification business** witnessed significant growth and increase in market share during the year. Growth in this segment would be driven by focus on energy efficiency and increased requirements of electrification network. Improving demand from emerging segments such as green hydrogen, semiconductors, battery manufacturing, energy storage as well as established segments such as renewables, data centers, metals, cement, oil and gas, and food & beverages are likely to lead growth, 2) **Motion and robotics segment** growth was driven by strong export orders, increased penetration in Tier II, III, and IV cities through channel partners. Future growth will be driven by continued investments in high-speed rail, metros, market expansion into Tier II/Tier III cities and industrial capex, 3) **Process automation** segment revenues were driven by sectors such as city gas distribution, terminal automation, life sciences, metals & mining, and cement, refineries and the petrochemical industry, upstream energy and power OEMs.

Stock Performance (1-year)

Future growth in process automation will be driven by steel, cement, mining, ethanol, green hydrogen, etc., 4) **Robotics** segment has a small share in revenues and inflows were driven by automotive, electronics, food & beverages, and service industries.

Improved gross margin and operating leverage driving margin improvement

Over CY19-23, ABB's gross margin improved 320 bp as benefits of localization, product mix, and improved pricing benefited the company. With a CAGR of 0.6% increase in number of employees, company's employee cost increased at a 5.4% CAGR over the same period from CY2019-23. Other expenses came down 270 bp over CY19-23, despite payouts to the parent remaining high at around 8% of sales, indicating operating leverage benefits. The company's purchases from related parties have also come down over the last four years. ABB has benefited from improved demand and pricing and we expect some RM price correction benefits to be passed on. However, in comparison with its parent, ABB still has a scope of 160 - 300 bp improvement across divisions.

Sustainability initiatives remain in focus

ABB has maintained its focus on sustainability; in 2023, the company achieved ~88% reduction in its own GHG (Scope 1 & 2) emissions compared to the baseline set in 2019. Moreover, about 50% of its manufacturing facilities are certified as Water Positive and the company has improved its water recyclability by 6% in 2023 to ~45%, compared to 39% in 2022. Furthermore, it has one of its five sites certified as zero waste to landfill.

Scope for margin improvement

We believe that there is a scope for margin improvement for ABB, given its advantageous position as one of the top five to six players in its critical markets such as electrification, automation, data centers. During the year, more than 10 facilities across multiple locations from offices to shop floors were modernized, refurbished, and inaugurated by the company. These included a most modern and sustainable switchgear factory in Nashik, new lines for manufacturing energy-efficient drives and a Motion services workshop. With ABB being a preferred choice as a quality player with full control over the value chain, its future trajectory of margins will be dependent upon improving business mix, higher share of exports and services in the future, and better operating leverage despite nearly 8% of sales going to the parent as royalty, IT fee, and group management fee. We expect the net impact of pass on lower RM prices and improved product pricing to be favorable for margins. We bake in EBITDA margin of 14.4%/14.7%/14.8% for CY24/25/26E.

Capex during the year

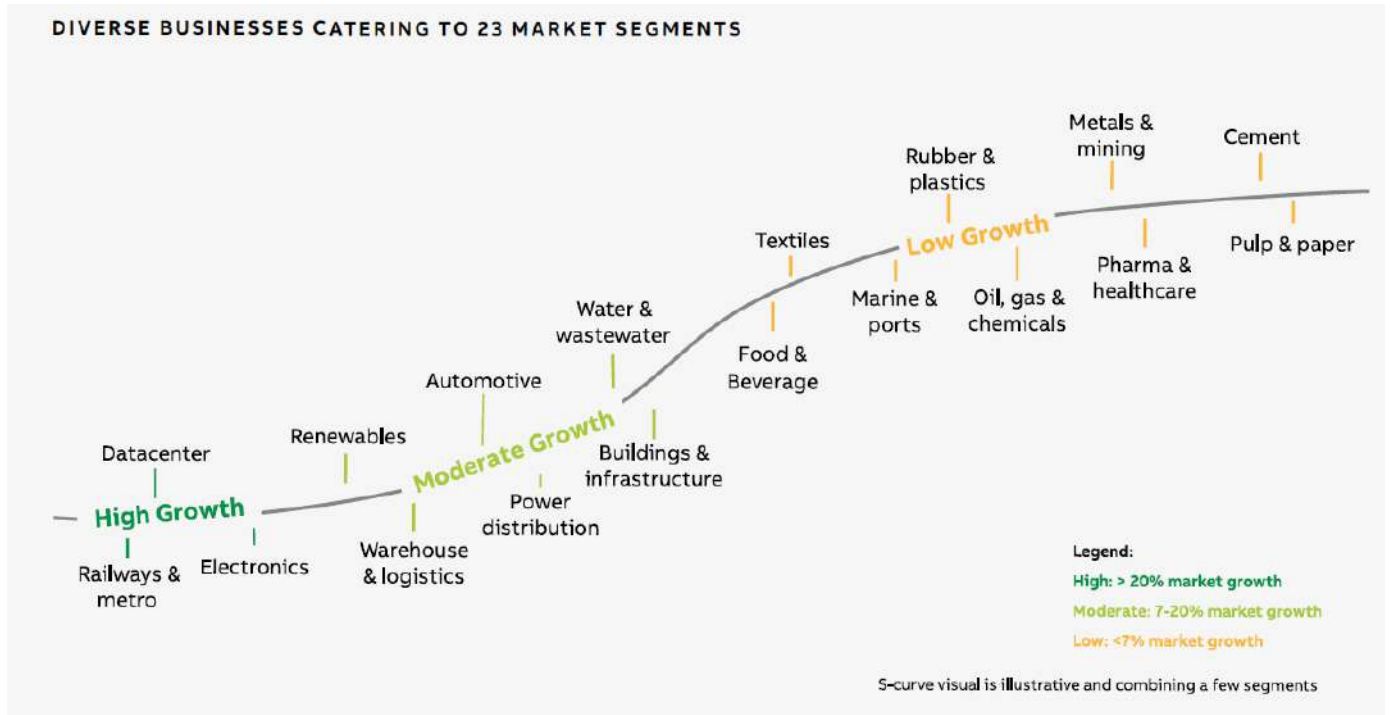
During the year, the company inaugurated a new production line for Drive modules, expanded R&D, and engineering footprint in India by System Drives division. The company also launched high voltage NEMA AMI induction motors, which further expanded the business's global footprint. The service team opened a new Drives Service Workshop at Vadodara and extended its support to customers in more than 22 countries, providing commissioning and preventive maintenance support.

Valuation and recommendation

We expect the company to continue to benefit from improved addressable market and improve upon its share of high growth segments. We incorporate AR2023 details and expect revenue to grow by 24.5%/22.1%/19.3% in CY24/25/26E and we bake in margins of 14.4%/14.7%/14.8% for the same period, translating into PAT growth of 24.6%/22.8%/20% for CY24/25/26E. ABB has been one of our top picks in the sector and has continuously outperformed on earnings. The stock is expensive on valuations at 74.3X/62.0X on CY25/26E earnings, but has one of the best RoIC in the capital goods sector. We incorporate AR2023 details and revise our TP. We remain positive on the company and maintain our BUY rating with a two-year forward price target of INR7,500.

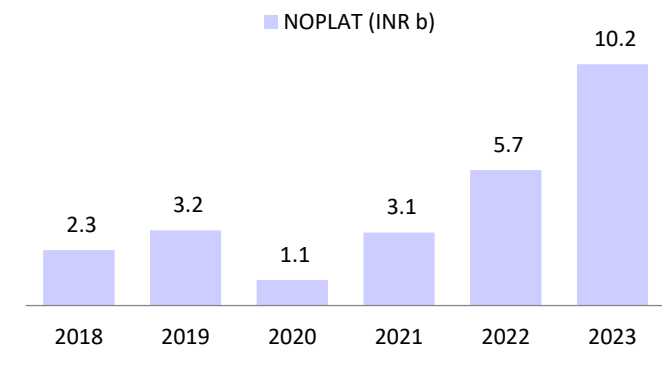
Growth Strategy

Exhibit 1: Company is focusing on high growth segments - higher the share of high growth segments, better the pricing



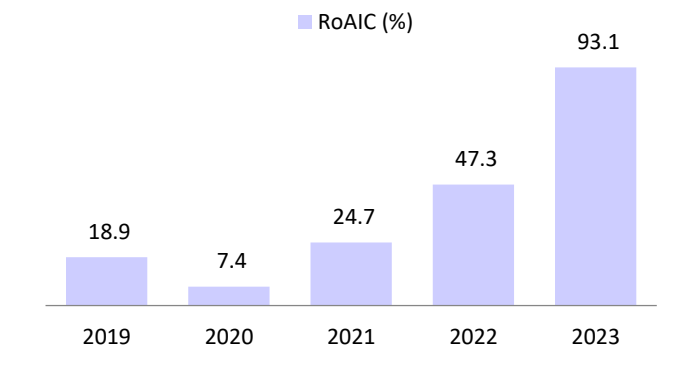
Source: Company, MOFSL

Exhibit 2: ABB has been able to improve profitability over the past five years



Source: Company, MOFSL

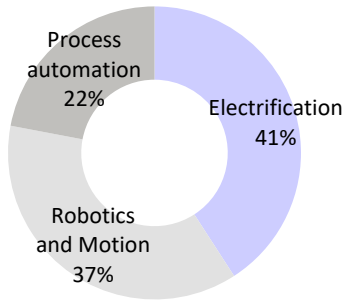
Exhibit 3: This has resulted in sharp improvement in RoAIC over the past five years



Source: Company, MOFSL

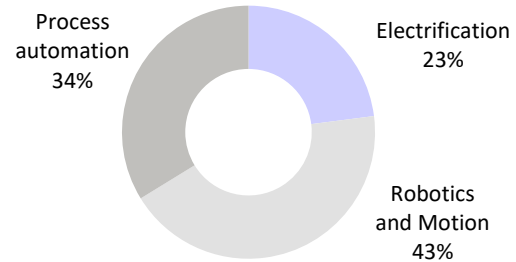
Order inflow and revenue analysis

Exhibit 4: Electrification and motion contributed larger share to order inflows (INR110b in CY23)



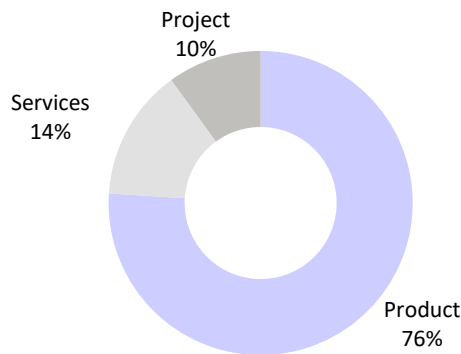
Source: Company, MOFSL

Exhibit 5: Motion and Process automation form larger chunk of order book (INR85b in CY23)



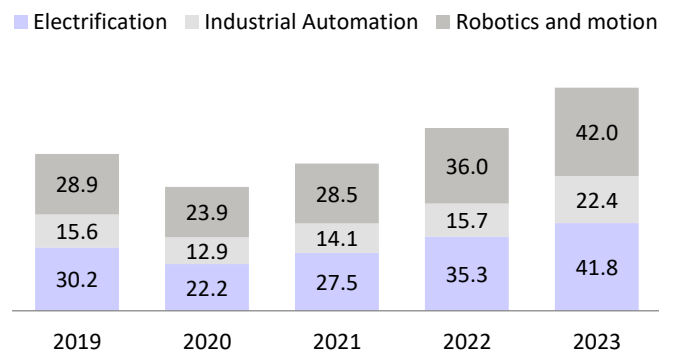
Source: Company, MOFSL

Exhibit 6: Product revenues form 76% of overall revenues and project share is less at 10%



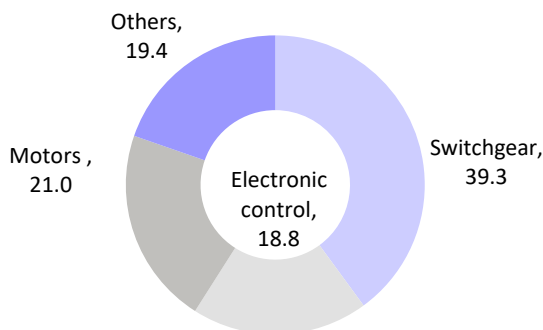
Source: Company, MOFSL

Exhibit 7: Robotics and motion registered a CAGR of 10% over CY19-23 (INR b)



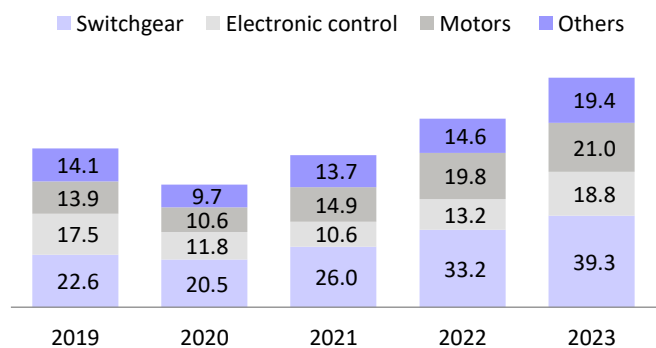
Source: Company, MOFSL

Exhibit 8: Product Revenue break up for CY2023 indicates that switchgear and motors form a large chunk (INR b)



Source: Company, MOFSL

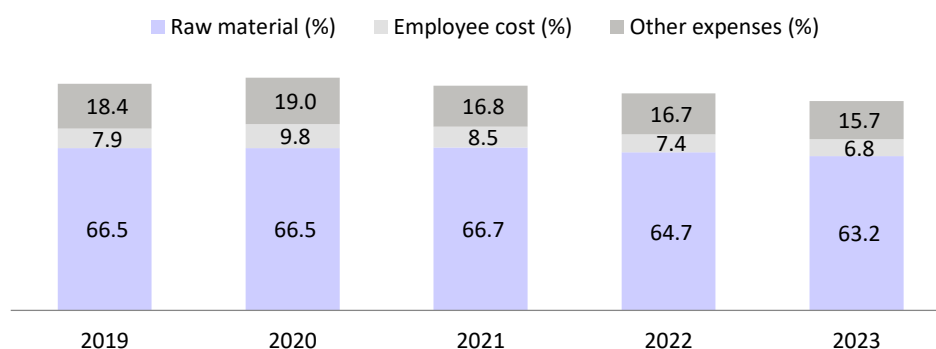
Exhibit 9: Switchgear, electronic control and motors grew 18/24/33% YoY in revenues in CY2023 (INR b)



Source: Company, MOFSL

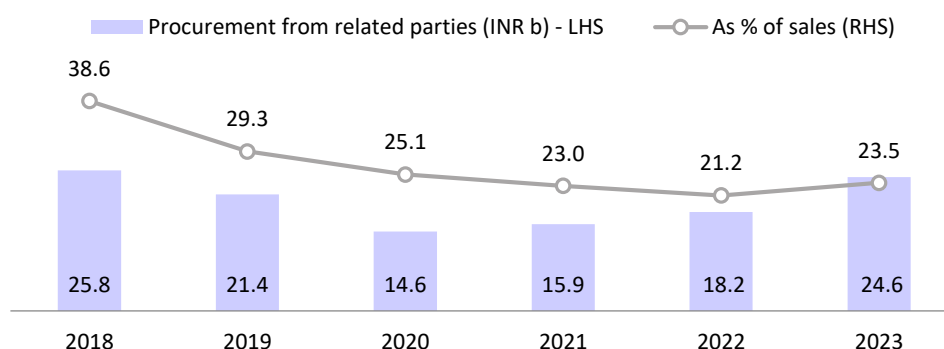
Cost Analysis

Exhibit 10: Margin improvement over the years is driven by lower RM and better operating leverage (as % of Sales)



Source: Company, MOFSL

Exhibit 11: Over the years, procurement from related parties has come down



Source: Company, MOFSL

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

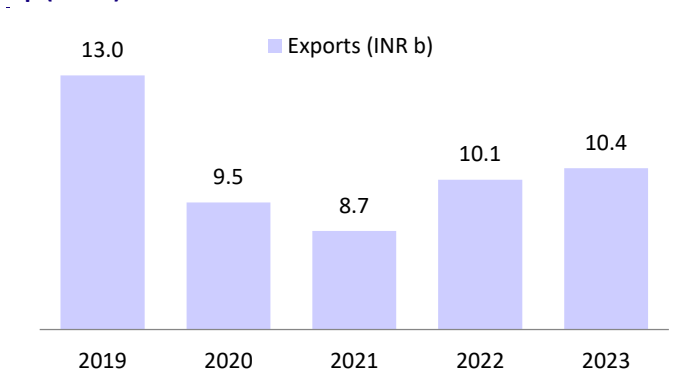
Exhibit 13: There is still a scope of margin improvement vs. parent entity, which can be achieved via higher localization (Segment wise margins % - Parent vs ABB India)

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

Source: Company, MOFSL

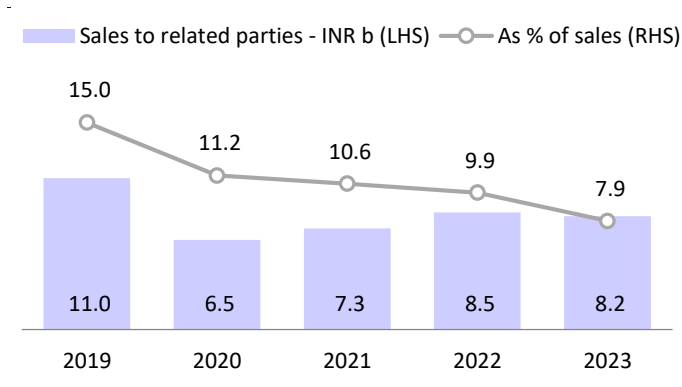
Exports can grow from current levels in future

Exhibit 14: Export revenues have gradually started moving up (INR b)



Source: Company, MOFSL

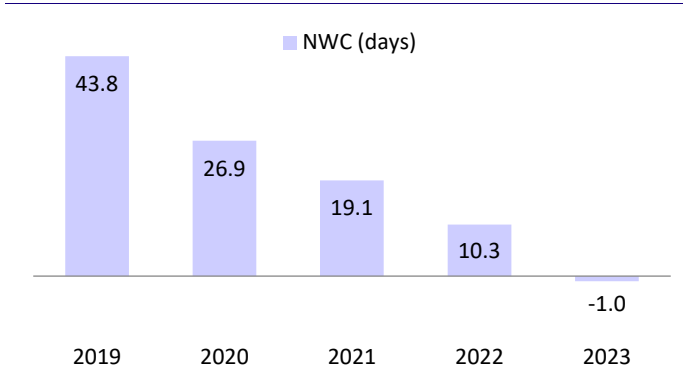
Exhibit 15: Sales to related parties has come down over CY19-23



Source: Company, MOFSL

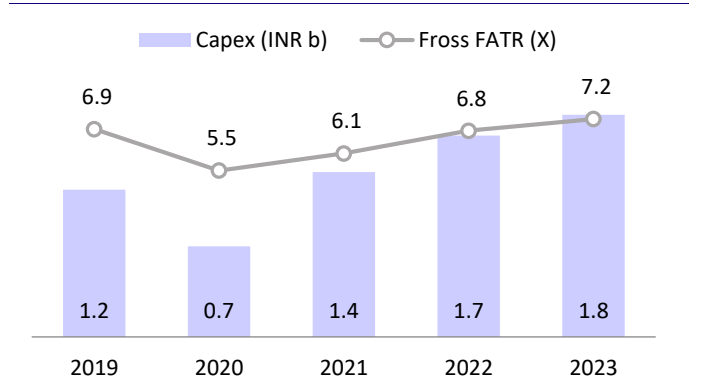
Improved NWC is leading to higher OCF and FCF

Exhibit 16: NWC cycle has seen continuous reduction over CY19-23



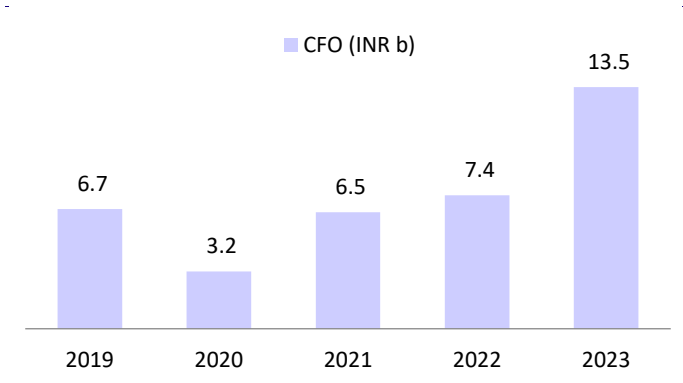
Source: Company, MOFSL

Exhibit 17: Company has surplus cash to take care of any future capex requirements



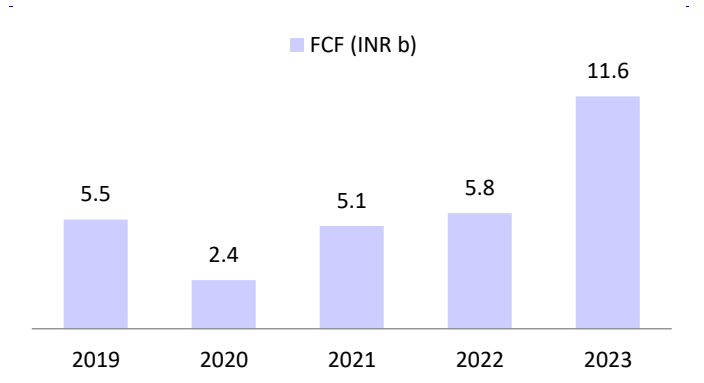
Source: Company, MOFSL

Exhibit 18: Reduction on NWC led to improved CFO over CY19-23



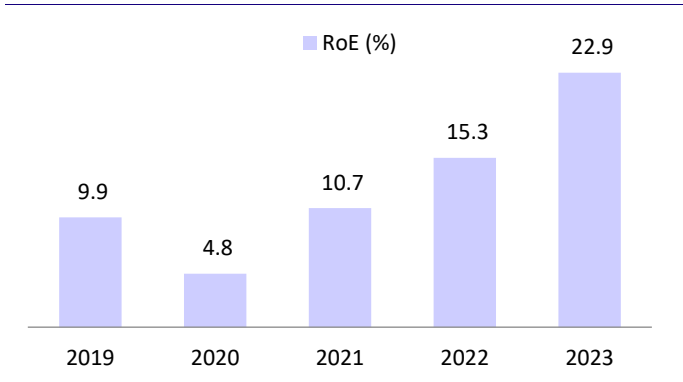
Source: Company, MOFSL

Exhibit 19: Improved CFO led to almost doubling of FCF over CY19-23



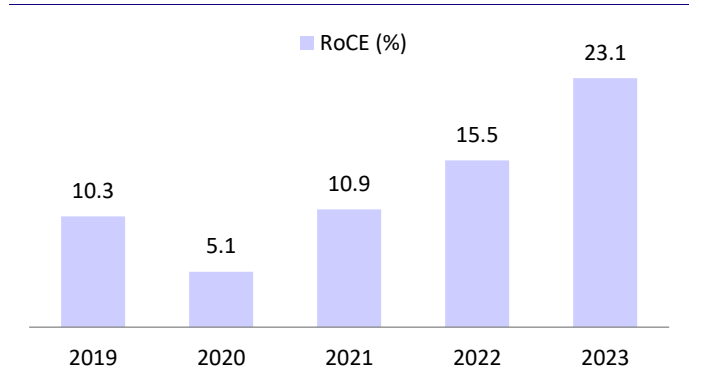
Source: Company, MOFSL

Exhibit 20: RoE improvement is driven by improvement in profitability



Source: Company, MOFSL

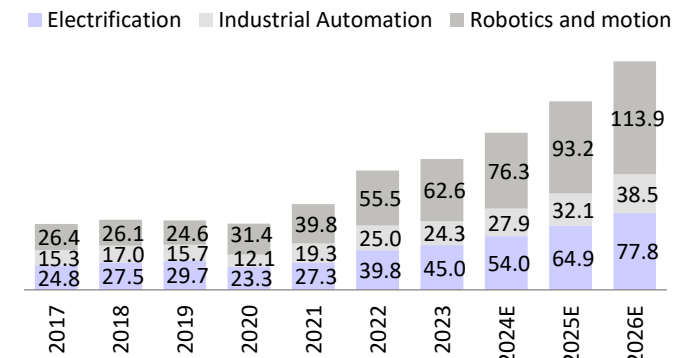
Exhibit 21: RoCE also improved in line with improved profitability and lower capital employed



Source: Company, MOFSL

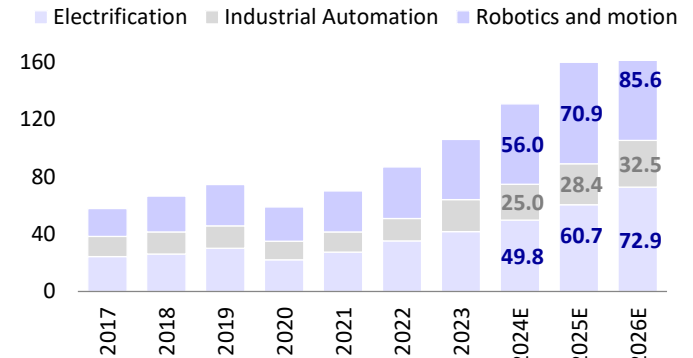
Financial outlook

Exhibit 22: We expect order inflows to grow at a CAGR of 20% over CY23-26 (INR b)



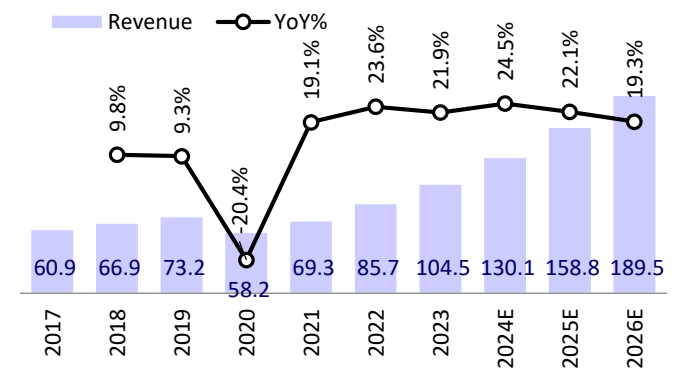
Source: Company, MOFSL

Exhibit 23: We expect revenues to grow at a CAGR of 22% over CY23-26 (INR b)



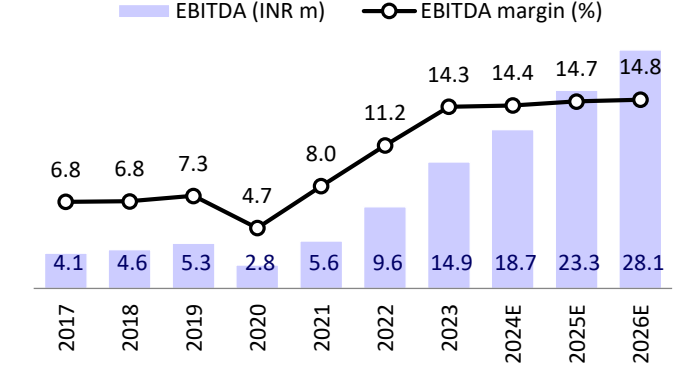
Source: Company, MOFSL

Exhibit 24: Overall revenue trend (INR b)



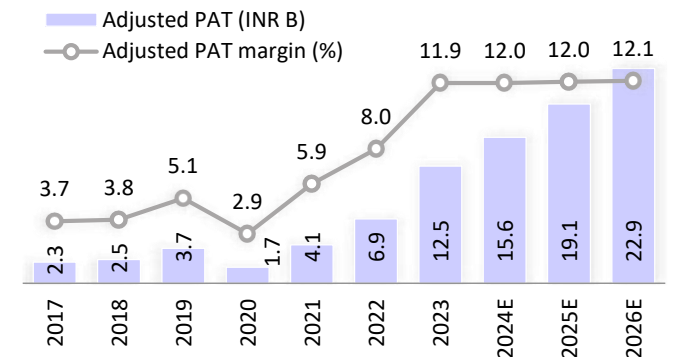
Source: Company, MOFSL

Exhibit 25: EBITDA and margin trend (INR b, %)



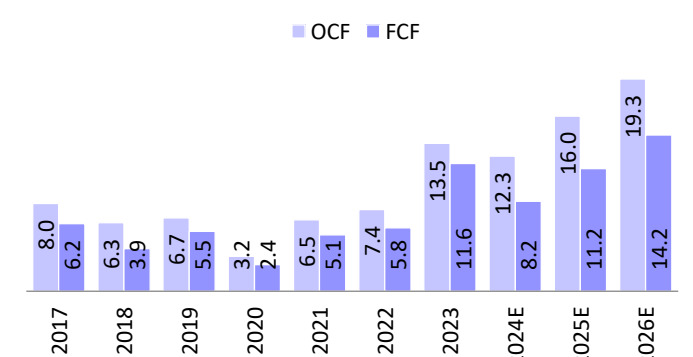
Source: Company, MOFSL

Exhibit 26: PAT growth to be driven by enhanced revenues and margin improvement (INR b)



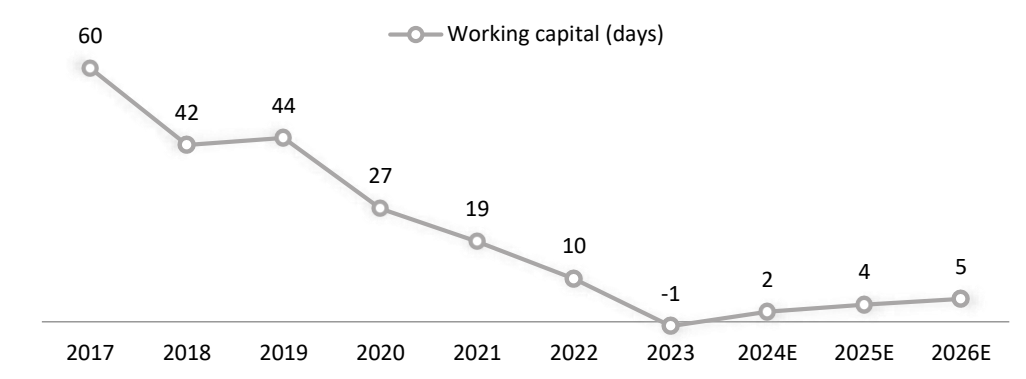
Source: Company, MOFSL

Exhibit 27: We expect OCF and FCF to remain strong on stable working capital cycle (INR b)



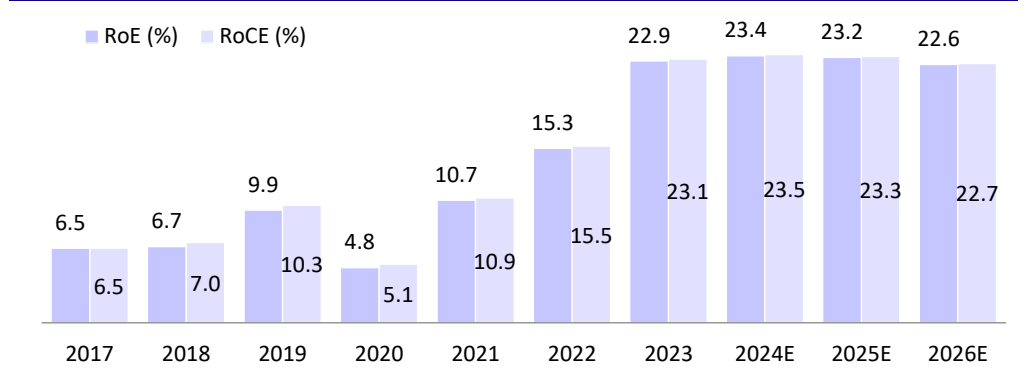
Source: Company, MOFSL

Exhibit 28: Working capital days



Source: Company, MOFSL

Exhibit 29: ROE and RoCE trend



Source: Company, MOFSL

Financials and valuations

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	1,30,050	1,58,812	1,89,486
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	82,066	1,00,057	1,19,192
Gross Profit	19,505	23,077	30,249	38,440	47,984	58,756	70,293
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	20,536	24,957	29,718
Total Expenditure	55,450	63,773	76,057	89,567	1,11,359	1,35,493	1,61,401
% of Sales	95.3	92.0	88.8	85.7	85.6	85.3	85.2
EBITDA	2,759	5,567	9,619	14,898	18,691	23,319	28,085
Margin (%)	4.7	8.0	11.2	14.3	14.4	14.7	14.8
Depreciation	1,204	1,027	1,047	1,199	1,297	1,580	1,963
EBIT	1,556	4,540	8,572	13,699	17,394	21,739	26,122
Int. and Finance Charges	169	107	131	127	111	112	113
Other Income	1,069	1,596	1,795	3,017	3,510	3,902	4,600
PBT bef. EO Exp.	2,456	6,029	10,235	16,589	20,794	25,530	30,609
EO Items							
PBT after EO Exp.	2,456	6,029	10,235	16,589	20,794	25,530	30,609
Total Tax	739	1,918	3,372	4,107	5,240	6,434	7,714
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	15,554	19,096	22,896
Adjusted PAT	1,716	4,112	6,863	12,482	15,554	19,096	22,896
Change (%)	-53.9	139.5	66.9	81.9	24.6	22.8	19.9
Margin (%)	2.9	5.9	8.0	11.9	12.0	12.0	12.1

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	73,076	90,373	1,11,109
Net Worth	36,064	40,452	49,394	59,446	73,500	90,796	1,11,532
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	72,473	89,769	1,10,505
Gross Block	11,150	11,764	13,432	15,624	19,749	24,535	29,640
Less: Accum. Deprn.	3,469	3,741	4,586	5,831	7,128	8,707	10,670
Net Fixed Assets	7,681	8,024	8,846	9,793	12,621	15,828	18,970
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	85,966	1,13,849	1,46,177
Inventory	8,408	10,091	14,207	15,608	16,780	20,417	24,321
Account Receivables	26,419	25,604	24,451	25,443	38,837	47,426	56,586
Cash and Bank Balance	22,066	26,877	31,491	8,769	18,855	32,017	48,560
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	9,264	11,313	13,498
Curr. Liability & Prov.	33,701	39,781	43,788	50,566	66,268	80,062	94,795
Other Current Liabilities	30,801	36,436	39,956	46,058	60,568	73,100	86,489
Provisions	2,901	3,345	3,832	4,508	5,701	6,962	8,306
Net Current Assets	26,315	30,467	33,880	8,472	19,698	33,788	51,382
Misc Expenditure	0	107	0	0	0	0	0
Appl. of Funds	34,892	39,513	48,496	58,419	72,473	89,769	1,10,505

Financials and valuations

Ratios							
Y/E Dec	CY20	CY21	CY22	CY23	CY24E	CY25E	CY26E
Basic (INR)							
EPS	8.1	19.4	32.4	58.9	73.4	90.1	108.1
Cash EPS	13.8	24.2	37.3	64.6	79.5	97.6	117.3
BV/Share	170.2	190.9	233.1	280.5	346.9	428.5	526.3
DPS	8.7	10.5	12.5	15.1	18.1	21.7	26.0
Payout (%)	125.8	63.0	45.3	29.9	28.8	28.1	28.2
Valuation (x)							
P/E	826.3	344.9	206.6	113.6	91.2	74.3	61.9
Cash P/E	485.7	276.0	179.3	103.7	84.2	68.6	57.0
P/BV	39.3	35.1	28.7	23.9	19.3	15.6	12.7
EV/Sales	24.0	20.1	16.2	13.5	10.8	8.7	7.2
EV/EBITDA	506.0	249.9	144.2	94.6	74.9	59.4	48.8
Dividend Yield (%)	0.1	0.2	0.2	0.2	0.3	0.3	0.4
FCF per share	11.5	24.2	26.7	54.9	38.6	52.7	67.1
Return Ratios (%)							
RoE	4.8	10.7	15.3	22.9	23.4	23.2	22.6
RoCE	5.1	10.9	15.5	23.1	23.5	23.3	22.7
RoIC	7.3	25.9	49.4	98.1	111.9	103.7	98.5
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	1.7
Inventory (Days)	53	53	61	55	47	47	47
Debtor (Days)	166	135	104	89	109	109	109
Leverage Ratio (x)							
Current Ratio	1.8	1.8	1.8	1.2	1.3	1.4	1.5
Interest Cover Ratio	9.2	42.4	65.4	108.2	157.3	194.5	231.2
Net Debt/Equity	-0.6	-0.7	-0.7	-0.8	-0.8	-0.8	-0.8

Standalone – Cash Flow Statement							(INR m)
Y/E Dec	CY20	CY21	CY22	CY23	CY24E	CY25E	CY26E
OP/(Loss) before Tax	2,894	7,072	13,503	16,589	20,794	25,530	30,609
Depreciation	1,204	1,027	1,047	1,199	1,297	1,580	1,963
Interest & Finance Charges	-509	-579	-1,137	-2,644	-3,400	-3,791	-4,487
Direct Taxes Paid	-1,033	-1,131	-2,467	-3,667	-5,240	-6,434	-7,714
(Inc)/Dec in WC	-130	1,015	-194	1,696	-1,140	-928	-1,051
CF from Operations	2,427	7,405	10,752	13,173	12,310	15,958	19,321
Others	755	-912	-3,427	285	0	0	0
CF from Operating incl EO	3,182	6,492	7,326	13,458	12,310	15,958	19,321
(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	8,186	11,171	14,216
(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
Inc/(Dec) in Debt	-337	-124	0	0	0	0	0
Interest Paid	-169	-85	-300	-364	3,400	3,791	4,487
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	1,900	1,991	2,327
Inc/Dec of Cash	6,084	4,815	24,186	11,744	10,086	13,162	16,543
Opening Balance	15,976	22,066	26,877	31,491	8,769	18,855	32,017
Other Bank Balances	6	-4	-19,573	-34,466			
Closing Balance	22,066	26,877	31,491	8,769	18,855	32,017	48,560

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