

India

HOLD (no change)

Consensus ratings*: Buy 14 Hold 11 Sell 7

Current price:	Rs4,527
Target price: ▲	Rs4,735
Previous target:	Rs3,890
Up/downside:	4.6%
InCred Research / Consensus:	20.7%
Reuters:	
Bloomberg:	ABB IN
Market cap:	US\$13,210m Rs959,235m
Average daily turnover:	US\$17.6m Rs1275.7m
Current shares o/s:	211.9m
Free float:	25.0%

*Source: Bloomberg

Key changes in this note

- Raise CY23F-25F EPS by 5%-13%.
- Raise target price to Rs4,735 from Rs3,890.
- Higher exit P/E of 75x from 65x.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.6	17.3	61.8
Relative (%)	1.7	11.3	47.3

Major shareholders	% held
Promoters (ABB Asea Brown Boveri Ltd)	75.0
SBI MF	1.3
Canara Robeco Mutual Fund	1.0

Analyst(s)



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ABB India Ltd

Margin expansion continues in 2Q

- 2Q EBITDA (+75% yoy) was 39% above our estimate (16% above consensus) led by strong growth across segments. EBITDA margin at 13.9% (+422bp yoy).
- We raise CY23F-25F EPS by 5%-13% because of consistent order execution, value-added volume mix, and consistent delivery.
- We have raised our target price on the stock to Rs4,735 (Rs3,890 earlier), valuing it at a P/E of 75x Dec 2025F (from 65x) on strong earnings visibility.

Strong operational EBITDA

ABB India's 2QCY23 EBITDA (+75% yoy) was 39% above our estimate (16% above consensus estimate) led by strong growth across segments. The EBITDA margin stood at 13.9% (+422bp yoy) vs our estimate of 10.5% (consensus estimate at 11.9%). PAT was at Rs2.96bn, up 101% YoY, above our estimate of Rs1.9bn (consensus estimate Rs2.4bn) supported by margin expansion and higher other income (up 196% yoy). Order book at the end of 2QCY23 stood at Rs77.2bn (+29% YoY), providing revenue visibility while the order inflow grew by 10% YoY to Rs30.4bn.

Higher margin trajectory likely to sustain

ABB India expects to maintain its double-digit the PBT margin, given softening commodity prices, while maintaining the overall pricing level. The company has been able to improve its gross margin by diversifying its sourcing from low-cost suppliers, focus on a better mix and its ability to pass on price hikes to the customers on a consistent basis across divisions. Further, the demand for high-quality products is rising with higher efficiencies.

Growth momentum in base orders continues

ABB India witnessed a strong momentum in base orders aided by its focus on the growth segments, rising market penetration, expansion of portfolio and expansion of partner network. The order pipeline is strong for large orders, with metals & cement sectors investing in large projects, and the trend, we feel, is likely to remain strong going ahead. The current order book worth Rs77bn is strong for value-added products. Order inflow rebounded in 2Q, driven by smart transportation, transition to green offerings & digital grids, multi-fold expansion of data centre capacity and higher penetration into Tier-III/ IV cities.

Reiterate HOLD rating on the stock

ABB India posted a healthy operating performance led by its consistent focus on execution, value-added volume mix, and consistent delivery. We have raised CY23F-25F EPS by 5%-13% on higher sales and margin assumptions. We have raised our target price to Rs4,735 (Rs3,890 earlier), valuing the stock at a P/E of 75x Dec 2025F (from 65x) to factor in margin expansion and strong visibility. The stock has rallied sharply by ~70% YTD, leaving limited upside, despite factoring in most positives, with an EPS CAGR of 21% over CY22-25F. We like Siemens and Thermax in this segment. Upside risks: Strong traction and improvement in order inflow. Downside risks: Delay in execution and lower margins.

Financial Summary

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (Rsm)	68,640	84,980	109,230	134,317	155,722
Operating EBITDA (Rsm)	5,567	9,615	13,305	15,238	16,901
Net Profit (Rsm)	5,325	10,252	11,180	11,996	13,374
Core EPS (Rs)	19.4	35.6	52.8	56.6	63.1
Core EPS Growth	82.8%	83.6%	48.1%	7.3%	11.5%
FD Core P/E (x)	180.13	93.56	85.80	79.96	71.72
DPS (Rs)	5.0	5.8	6.4	7.0	7.7
Dividend Yield	0.11%	0.13%	0.14%	0.16%	0.17%
EV/EBITDA (x)	167.51	96.51	69.83	60.66	54.29
P/FCFE (x)	163.38	164.13	2,811.37	156.30	112.98
Net Gearing	(65.9%)	(63.2%)	(51.0%)	(50.0%)	(51.2%)
P/BV (x)	23.71	19.42	16.20	13.76	11.77
ROE	10.9%	18.8%	25.4%	23.5%	22.3%
% Change In Core EPS Estimates			13.37%	5.24%	6.15%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

2QCY23 results review

Conference-call highlights ►

- Business sentiment remains positive:
 - ABB India is engaged with more than 3,000 customers across 13 tier-II & tier-III markets, which saw a positive momentum. With the manufacturing sector showing a high uptick, the opportunities from projects under planning continue to see an upward trajectory.
 - Management is positive on India's food processing industry, which is expected to touch US\$535bn by FY25F from US\$290bn in FY22.
 - **Margin:** Management expects the PBT margin of 10% to sustain in the coming years. The EBITDA margin expanded by 422bp yoy to 13.9% with improvement in gross margin by diversifying sourcing from low-cost suppliers, focus on a better mix and the ability to pass on price hikes to the customers on a consistent basis across divisions.
- **Base orders drive the growth:** ABB India has a strong momentum in base orders. The company's focus on growth segments, rising market penetration, expansion of portfolio, and expansion of partner network helped it to expand in tier-II and tier-III cities in the last two-to-three years, and is the major contributor in driving the growth in base orders. Order inflow during 2QCY23 grew by 10% yoy to Rs30.4bn, mainly led by base orders.
- **Process automation:** This segment is seeing good order inflow on the back of strong traction witnessed in the projects part of the business. Order inflow in process automation grew by 10% yoy to Rs7.8bn. The opportunities from metals, cement, and energy segments coupled with uptick in export business led the growth. The revenue of the process automation segment grew by 36% yoy to Rs5bn, mainly led by energy business and successful achievement of project milestone, while margins increased by 30bp to 11.1% in 2QCY23.
- **Electrification:** Order inflow of the electrification segment grew by 15% yoy to Rs11bn led by distribution solutions and data centres in systems-related offerings. The revenue of the electrification segment grew by 20% yoy to Rs10bn, led by higher realization while margins expanded by 480bp to 16.3% in 2QCY23.
- **Motion segment:** Order inflow of the segment rose by 8% yoy to Rs11.3bn led by energy-efficient products and traction converter. The revenue of the motion segment grew by 20% yoy to Rs9.2bn led by strong execution and penetration in tier-II and tier-III cities. The margins of the segment expanded by 564 bp to 14.5% in 2QCY23.
- **Strong order book:** The current order backlog is much stronger, which mostly comprises value-added products that would improve the profitability going ahead. Order book at the end of 2QCY23 stood at Rs77.3bn (+29% YoY), providing revenue visibility.

2QCY23 results highlights ►

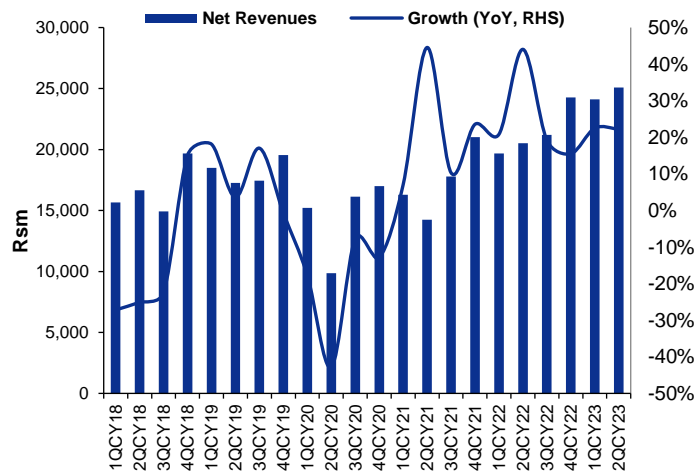
- Sales at Rs25bn (+22% yoy) were 5% above our estimate (1% lower than consensus estimate).
- EBITDA at Rs3.5bn (+76% yoy) was 66% above our estimate (39% above consensus estimate).
- The EBITDA margin at 13.9% (+422bp yoy) was above our estimate of 10.4% and consensus estimate of 11.9%.
- PAT stood at Rs2.96bn (+101% yoy), above our estimate of Rs1.90bn and consensus estimate of Rs2.46bn.

Figure 1: Results summary

(Rs m)	2QCY23	2QCY22	yoy % chg	1QCY23	qoq % chg	1HCY23	1HCY22	yoy % chg
Net Revenue	25,086	20,525	22.2	24,112	4.0	49,199	40,209	22.4
Expenses	-21,599	-18,538	16.5	-21,259	1.6	-42,858	-36,342	17.9
Stock	481	313	53.5	-460	(204.5)	21	585	(96.5)
Raw material cost	-16,401	-13,409	22.3	-14,896	10.1	-31,296	-26,679	17.3
Employee cost	-1,681	-1,457	15.4	-1,878	(10.5)	-3,559	-3,207	11.0
Other expenses	-3,998	-3,985	0.3	-4,025	(0.7)	-8,023	-7,042	13.9
Exch. (loss)/ gain	0	0		0		0	0	
EBITDA	3,487	1,988	75.5	2,853	22.2	6,341	3,866	64.0
Other income	750	253	196.2	723	3.8	1,473	626	135.3
Interest	-14	-28	(50.9)	-22	(37.7)	-36	-43	(16.0)
Depreciation	-292	-253	15.4	-275	6.4	-567	-510	11.2
PBT	3,932	1,959	100.7	3,279	19.9	7,210	3,939	83.0
Tax	-973	-489	99.2	-827	17.7	-1,800	-1,011	78.1
Adjusted PAT	2,958	1,471	101.2	2,452	20.6	5,410	2,928	84.8
EOI	0	0		0		0	2,244	
Overall, PAT	2,957	1,403	110.8	2,449	20.7	5,406	5,134	5.3
EPS (Rs)	14.0	6.9	101.2	11.6	20.6	25.5	13.8	84.8
Cost Analysis	2QCY23	2QCY22	yoy bp chg	1QCY23	qoq bp chg	1HCY23	1HCY22	yoy bp chg
Raw material	63.5	63.8	-34 bps	63.7	-22 bps	63.6	64.9	-133 bps
Employee	6.7	7.1	-40 bps	7.8	-109 bps	7.2	8.0	-74 bps
Other expenditure	15.9	19.4	-348 bps	16.7	-75 bps	16.3	17.5	-121 bps
EBITDA Margin	13.9	9.7	422 bps	11.8	207 bps	12.9	9.6	327 bps
PBT Margin	15.7	9.5	613 bps	13.6	207 bps	14.7	9.8	486 bps
Tax rate	24.8	24.9	-18 bps	25.2	-46 bps	25.0	25.7	-70 bps

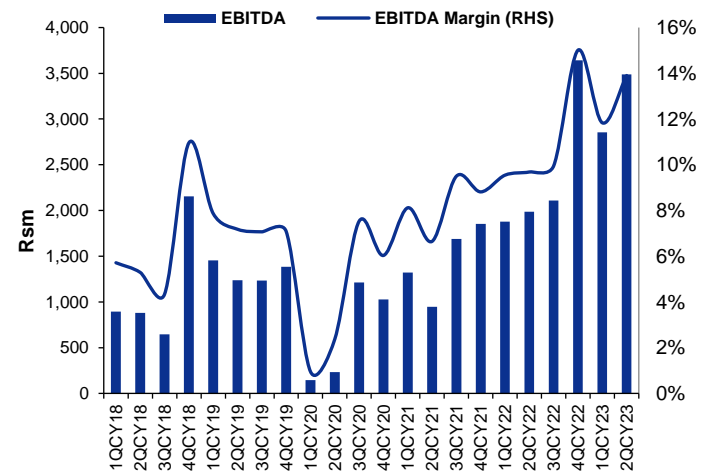
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Maintains healthy revenue growth of 22% YoY



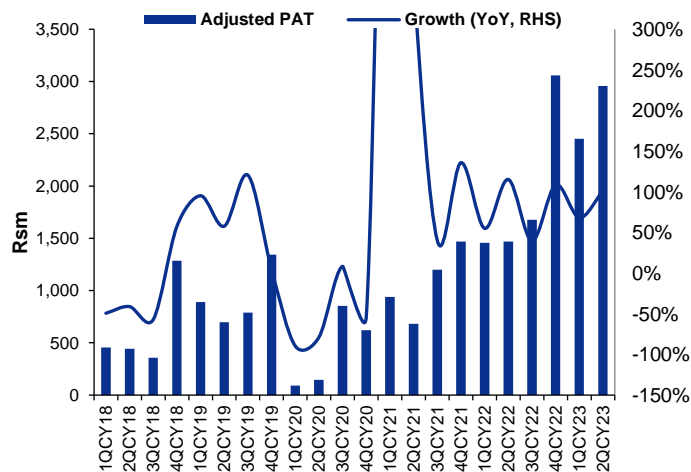
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: The EBITDA margin expands by 422 bp yoy



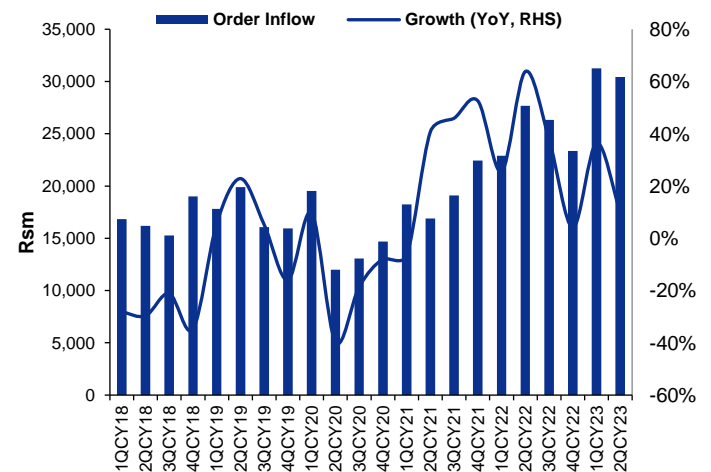
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: PAT grew by 101%



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Order inflow grew by 10% YoY



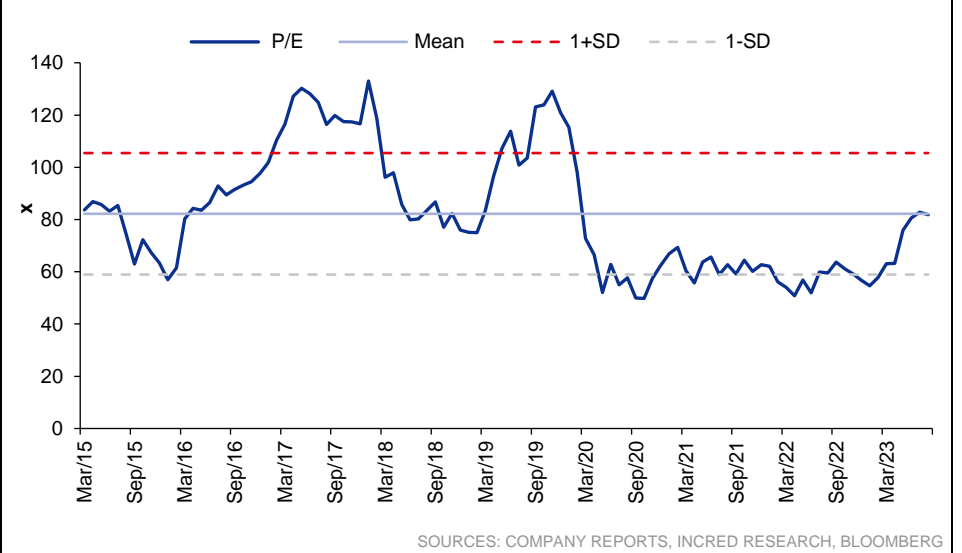
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Our revised earnings estimates

(Rs m)	Old estimates			New Estimates			Change (%)		
	CY23F	CY24F	CY25F	CY23F	CY24F	CY25F	CY23F	CY24F	CY25F
Revenue	1,11,887	1,30,929	1,47,831	1,09,230	1,34,317	1,55,722	-2.4%	2.6%	5.3%
EBITDA	12,793	14,726	16,150	13,305	15,238	16,901	4.0%	3.5%	4.7%
Core PAT	9,861	11,399	12,600	11,180	11,996	13,374	13.4%	5.2%	6.1%

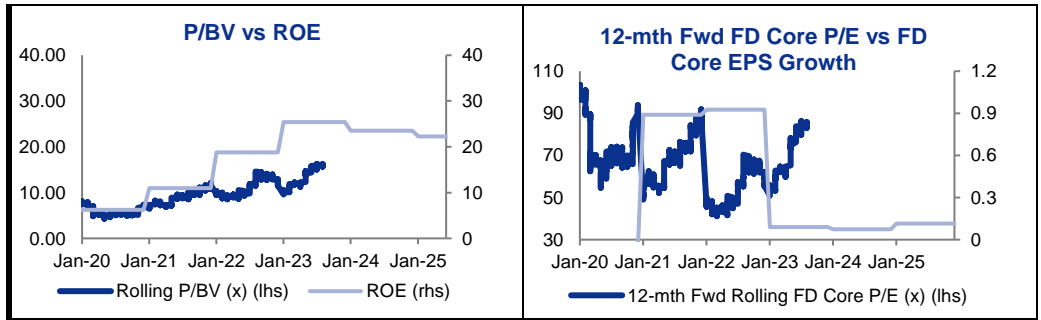
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: ABB India trades at its mean level



SOURCES: COMPANY REPORTS, INCRED RESEARCH, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	69,340	85,672	109,230	134,317	155,722
Gross Profit	23,077	30,245	39,214	48,220	55,905
Operating EBITDA	5,567	9,615	13,305	15,238	16,901
Depreciation And Amortisation	(1,027)	(1,047)	(1,196)	(1,283)	(1,516)
Operating EBIT	4,540	8,568	12,108	13,955	15,385
Financial Income/(Expense)	(107)	(131)	(68)	(72)	(75)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,596	1,795	2,863	2,108	2,519
Profit Before Tax (pre-EI)	6,029	10,232	14,903	15,991	17,828
Exceptional Items					
Pre-tax Profit	6,029	10,232	14,903	15,991	17,828
Taxation	(1,918)	(2,682)	(3,723)	(3,995)	(4,454)
Exceptional Income - post-tax	1,213	2,703			
Profit After Tax	5,325	10,252	11,180	11,996	13,374
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	5,325	10,252	11,180	11,996	13,374
Recurring Net Profit	4,112	7,549	11,180	11,996	13,374
Fully Diluted Recurring Net Profit	4,112	7,549	11,180	11,996	13,374

Cash Flow

(Rs mn)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	5,567	9,615	13,305	15,238	16,901
Cash Flow from Invt. & Assoc.					
Change In Working Capital	924	(3,773)	(9,535)	(4,642)	(3,901)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	1,027	1,047	1,196	1,283	1,516
Other Operating Cashflow	370	1,999	92	(903)	(1,035)
Net Interest (Paid)/Received	(107)	(131)	(68)	(72)	(75)
Tax Paid	(1,918)	(2,682)	(3,723)	(3,995)	(4,454)
Cashflow From Operations	5,864	6,075	1,266	6,910	8,953
Capex	(803)	(1,797)	(2,500)	(2,500)	(2,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	1,075	1,519	1,575	1,727	2,037
Cash Flow From Investing	272	(278)	(925)	(773)	(463)
Debt Raised/(repaid)	(264)	47			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(1,060)	(1,231)	(1,354)	(1,489)	(1,638)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(1,324)	(1,184)	(1,354)	(1,489)	(1,638)
Total Cash Generated	4,812	4,613	(1,013)	4,648	6,852
Free Cashflow To Equity	5,871	5,844	341	6,137	8,490
Free Cashflow To Firm	6,243	5,928	409	6,209	8,565

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	26,877	31,491	30,478	35,126	41,977
Total Debtors	18,838	20,930	26,902	33,081	38,353
Inventories	10,091	14,207	13,742	16,959	19,703
Total Other Current Assets	14,442	15,967	20,523	25,237	29,259
Total Current Assets	70,248	82,594	91,645	110,403	129,292
Fixed Assets	8,939	9,689	10,993	12,210	13,194
Total Investments					
Intangible Assets					
Total Other Non-Current Assets	1,540	898	898	898	898
Total Non-current Assets	10,479	10,588	11,891	13,108	14,092
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	19,613	23,282	31,422	38,639	44,797
Other Current Liabilities	19,930	20,221	12,610	14,860	16,839
Total Current Liabilities	39,543	43,503	44,032	53,499	61,636
Total Long-term Debt	238	285	285	285	285
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	495				
Total Non-current Liabilities	732	285	285	285	285
Total Provisions					
Total Liabilities	40,276	43,788	44,317	53,784	61,921
Shareholders Equity	40,452	49,394	59,220	69,726	81,463
Minority Interests					
Total Equity	40,452	49,394	59,220	69,726	81,463

Key Ratios					
	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	19.2%	23.8%	28.5%	23.0%	15.9%
Operating EBITDA Growth	101.8%	72.7%	38.4%	14.5%	10.9%
Operating EBITDA Margin	8.1%	11.3%	12.2%	11.3%	10.9%
Net Cash Per Share (Rs)	125.72	147.27	142.49	164.42	196.76
BVPS (Rs)	190.90	233.10	279.47	329.05	384.44
Gross Interest Cover	42.43	65.35	177.26	194.56	204.29
Effective Tax Rate	31.8%	26.2%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	25.8%	16.3%	12.1%	12.4%	12.2%
Accounts Receivables Days	122.96	80.52	77.49	67.98	67.03
Inventory Days	85.31	77.33	58.28	53.77	54.47
Accounts Payables Days	184.40	138.38	131.47	118.38	117.76
ROIC (%)	21.6%	34.8%	31.3%	30.0%	29.0%
ROCE (%)	11.7%	21.2%	27.3%	27.2%	25.5%
Return On Average Assets	5.1%	9.2%	13.0%	12.6%	12.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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been engaged in market making activity for the subject company	NO	NO

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