

August 12, 2024

Q2CY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	CY24E	CY25E	CY24E	CY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	8,833		8,400	
Sales (Rs.m)	1,28,233	1,59,765	1,31,374	1,59,180
% Chng.	(2.4)	0.4		
EBITDA (Rs.m)	23,326	27,879	20,875	26,106
% Chng.	11.7	6.8		
EPS (Rs.)	89.1	106.1	80.2	99.6
% Chng.	11.1	6.6		

Key Financials - Standalone

Y/e Dec	CY23	CY24E	CY25E	CY26E
Sales (Rs. m)	1,04,465	1,28,233	1,59,765	1,92,556
EBITDA (Rs. m)	14,898	23,326	27,879	33,023
Margin (%)	14.3	18.2	17.5	17.2
PAT (Rs. m)	12,482	18,875	22,487	26,770
EPS (Rs.)	58.9	89.1	106.1	126.3
Gr. (%)	62.0	51.2	19.1	19.0
DPS (Rs.)	29.3	35.6	42.4	50.5
Yield (%)	0.4	0.4	0.5	0.6
RoE (%)	22.9	28.9	28.7	28.3
RoCE (%)	25.0	33.5	33.4	33.0
EV/Sales (x)	15.7	12.8	10.2	8.4
EV/EBITDA (x)	110.2	70.2	58.5	49.0
PE (x)	135.3	89.5	75.1	63.1
P/BV (x)	28.4	23.8	19.7	16.4

Key Data

ABB.BO | ABB IN

52-W High / Low	Rs.9,200 / Rs.3,848
Sensex / Nifty	79,706 / 24,368
Market Cap	Rs.1,689bn/ \$ 20,122m
Shares Outstanding	212m
3M Avg. Daily Value	Rs.3750.53m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	12.06
Domestic Institution	5.64
Public & Others	7.30
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(7.2)	77.6	76.6
Relative	(6.5)	59.5	46.2

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Strong Q2; margin profile continues to improve

Quick Pointers:

- Base order inflow was flat YoY at Rs28.9bn, while large orders jumped 3.4x YoY to Rs5.5bn in Q2CY24.
- Domestic/export revenue mix stood at 88%/12% (vs 89%/11% in Q2CY23).

We revise our CY24/25E EPS estimates by +11.1%/6.6% factoring in continued healthy prospects and better margin profile. ABB India (ABB) reported strong quarterly performance with revenue growing 12.8% YoY and EBITDA margin expanding by 526bps YoY to 19.2%. Domestic demand momentum continues to remain strong across data centers, automation in energy and metals, traction & propulsion technology in rail & metro, and robotics in EV and electronics, with increasing penetration in Tier II & III markets. Given the sustained demand expected over the next 5-10 years, the company has prepared capacity expansion plans across segments. Leverage from rising capacity utilization will continue to aid margins. ABB is also seeing growing offtake in export markets, but continues to remain selective.

We remain positive on ABB given 1) the increasing traction for energy efficient and premium quality products, 2) its resilient business model, 3) its focus on high-growth areas such as data centers, rail & metro, renewables, and electronics, and 4) the strong domestic order pipeline. The stock is trading at a P/E of 89.5x/75.1x CY24/25E. We maintain 'Accumulate' rating with a revised TP of Rs8,833 (Rs8,400 earlier) valuing the stock at a P/E of 76x Jun-26E (same as earlier).

Material cost improvement drives margin expansion: Revenue rose 12.8% YoY to Rs28.3bn (PL: Rs32.0bn), slightly impacted by the general elections and efforts to align deliveries with customer project schedules. Electrification revenue grew 11.5% YoY to Rs11.2bn; Automation grew 24.2% YoY to Rs6.3bn; and Motion grew 17.3% YoY to Rs10.8bn. Meanwhile, Robotics fell 31.2% YoY to Rs0.8bn (vs a high base in Q2CY23 when more automotive orders were executed). Gross margin increased by 631bps YoY to 42.8% (PL: 40.2%) as better mix, positive pricing, and higher utilization drove material cost savings. EBITDA rose 55.6% YoY to Rs5.4bn (PL: Rs5.8bn) with EBITDA margin rising by 526bps YoY to 19.2% (PL: 18.1%) led by the gross margin improvement. Operational EBITA margin expanded by 612bps YoY to 19.7%. Electrification EBIT margin rose to 23.1% (vs 16.3% in Q2CY23); Automation margin came in at 16.2% (vs 11.1%); Motion margin jumped to 23.1% (vs 14.5%); and Robotics margin stood at 14.6% (vs 12.6%). PAT rose 49.6% YoY to Rs4.4bn (PL: Rs4.7bn) driven by the strong operating performance.

Order book stands at Rs95.2bn (0.8x TTM revenue): Q2CY24 order inflow grew 12.8% YoY to Rs34.5bn led by Electrification (+30% YoY), Motion (+18% YoY) and Robotics (+157% YoY), while Automation was down 32% YoY vs a high base. Growth was driven by data centers, rail & metro, auto, metals, power T&D, and energy. Order book composition: Motion 41%, Automation 27%, Electrification 29%, and Robotics 3%. Long-cycle orders account for 40-45% of the order book.

Exhibit 1: Better revenue mix & pricing, optimization, and increased utilization drive robust improvement in gross margin

Y/e March (Rs mn)	Q2CY23	Q3CY23	Q4CY23	Q1CY24	Q2CY24	YoY gr. (%)	QoQ gr. (%)	H1CY24	H1CY23	YoY gr. (%)
Revenue	25,086	27,692	27,575	30,804	28,309	12.8	(8.1)	59,112	49,198	20.2
Total Revenues	25,086	27,692	27,575	30,804	28,309	12.8	(8.1)	59,112	49,198	20.2
Expenditure	21,599	23,307	23,403	25,152	22,884	5.9	(9.0)	48,036	42,858	12.1
as % of sales	86.1	84.2	84.9	81.7	80.8			81.3	87.1	
Consumption of RM	15,920	17,522	17,227	18,408	16,179	1.6	(12.1)	34,586	31,276	10.6
as % of sales	63.5	63.3	62.5	59.8	57.2			58.5	63.6	
Employee Cost	1,681	1,780	1,813	2,211	2,030	20.8	(8.2)	4,241	3,559	19.2
as % of sales	6.7	6.4	6.6	7.2	7.2			7.2	7.2	
Other expenditure	3,998	4,005	4,363	4,533	4,675	16.9	3.1	9,208	8,023	14.8
as % of sales	15.9	14.5	15.8	14.7	16.5			15.6	16.3	
EBITDA	3,487	4,385	4,172	5,652	5,425	55.6	(4.0)	11,077	6,340	74.7
Depreciation	292	303	329	314	310	6.0	(1.4)	624	567	10.0
EBIT	3,195	4,082	3,843	5,338	5,115	60.1	(4.2)	10,453	5,773	81.1
Other Income	750	768	776	871	868	15.6	(0.4)	1,739	1,473	18.1
Interest	14	9	82	38	45	224.5	18.4	83	36	129.8
Exceptional Item	-	-	-	-	-			-	-	
PBT	3,931	4,842	4,537	6,171	5,938	51.0	(3.8)	12,109	7,210	67.9
Total Tax	973	1,222	1,085	1,575	1,511	55.3	(4.0)	3,086	1,800	71.4
Reported PAT	2,958	3,620	3,452	4,596	4,426	49.6	(3.7)	9,022	5,410	66.8
Adjusted PAT	2,958	3,620	3,452	4,596	4,426	49.6	(3.7)	11,683	7,703	51.7
Adj. EPS	14.0	17.1	16.3	21.7	20.9	49.6	(3.7)	42.6	25.5	66.8
Margins (%)	Q2CY23	Q3CY23	Q4CY23	Q1CY24	Q2CY24	YoY bps	QoQ bps	H1CY24	H1CY23	YoY bps
Gross	36.5	36.7	37.5	40.2	42.8	631	261	41.5	36.4	506
EBITDA	13.9	15.8	15.1	18.3	19.2	526	82	18.7	12.9	585
EBIT	12.7	14.7	13.9	17.3	18.1	533	74	17.7	11.7	595
EBT	15.7	17.5	16.5	20.0	21.0	530	94	20.5	14.7	583
PAT	11.8	13.1	12.5	14.9	15.6	384	72	19.8	15.7	411
Effective Tax rate	24.8	25.2	23.9	25.5	25.5	70	(7)	25.5	25.0	52

Source: Company, PL

Exhibit 2: Strong margin improvement across segments

Segment Performance	Q2CY23	Q3CY23	Q4CY23	Q1CY24	Q2CY24	YoY gr. (%)	QoQ gr. (%)	H1CY24	H1CY23	YoY gr. (%)
Revenue (Rs mn)										
Robotics & Discrete Automation	1,225	1,183	1,077	1,092	843	(31.2)	(22.8)	1,934	1,901	1.8
Motion	9,173	9,810	9,146	10,128	10,758	17.3	6.2	20,886	18,895	10.5
Electrification	10,056	10,420	11,302	12,963	11,214	11.5	(13.5)	24,176	20,051	20.6
Process Automation	5,096	6,756	6,307	7,263	6,327	24.2	(12.9)	13,590	9,298	46.2
Others	53	24	29	26	44	(17.2)	72.2	69	72	(3.1)
Less Intersegmental	(517)	(502)	(286)	(667)	(877)	69.7	31.5	(1,544)	(1,017)	51.8
Total	25,086	27,692	27,575	30,804	28,309	12.8	(8.1)	59,112	49,198	20.2
EBIT (Rs mn)										
Robotics & Discrete Automation	155	142	127	168	123	(20.6)	(27.1)	291	261	11.5
Motion	1,329	1,899	1,619	2,163	2,490	87.3	15.1	4,653	2,497	86.4
Electrification	1,640	2,011	2,148	3,078	2,594	58.2	(15.7)	5,672	3,586	58.2
Process Automation	568	983	810	1,181	1,023	80.3	(13.4)	2,204	956	130.5
EBIT Margin (%)						YoY bps	QoQ bps			YoY bps
Robotics & Discrete Automation	12.6	12.0	11.8	15.4	14.6	196	(85)	15.1	13.7	131
Motion	14.5	19.4	17.7	21.4	23.1	865	178	22.3	13.2	906
Electrification	16.3	19.3	19.0	23.7	23.1	682	(61)	23.5	17.9	557
Process Automation	11.1	14.5	12.8	16.3	16.2	503	(9)	16.2	10.3	593

Source: Company, PL

Conference Call Highlights

- Order inflows grew 12.8% YoY in Q2CY24** with traction in large orders from emerging segments (data centers, renewables, electronics, rail & metro). Base orders were flat YoY owing to election-related slowdown, but are expected to pick up as the pipeline remains strong, especially in Tier 2/3 cities.
- Long-cycle orders constitute 40-45% of the order book**, and have an execution period of 15-18 months with price variation clauses built in. Balance 55-60% is short-cycle orders with an execution period of 6-9 months, majority of which are fixed-price contracts.
- Q2CY24 domestic/export revenue mix stood at 88%/12%**; product/service/project mix was 76%/12%/12%; and channel mix was 42%/34%/11%/13% across direct sales/partners/EPCs/OEMs.
- Revenue worth ~Rs2bn was postponed** on account of efforts to align deliveries with customers' project schedules as well as delays due to elections.
- Material cost savings drove margin improvement** (gross margin +630bps YoY). ~350bps came from external factors such as mix, pricing and market penetration, and balance from internal levers such as operational efficiencies, capacity utilization and supply chain localization. Rs95mn FX & commodity gains (vs Rs300mn loss in Q1CY24) also aided profitability.
- Electrification:** Order inflows grew 30% YoY to Rs14.3bn led by data centers and smart power, including large orders for power distribution solutions and higher service orders. Margin improved by 682bps YoY to 23.1% on the back of operating efficiency and better mix with execution of higher margin orders.

- **Motion:** Order inflows rose 18% YoY to Rs13.3bn driven by large orders for traction technology in rail & metro. Order book rose 54% YoY to an all-time high of Rs39bn, including a major order for traction converters in railways as well as a long-term service order. Excluding these, the order book was up 20-22% YoY. Q1CY24 saw higher revenue from propulsion equipment and high dynamic performance motors. Margin jumped by 865bps YoY to 23.1% aided by superior price realization, better mix, and FX gains. IE3&4 motors account for 52-53% of ABB's motor production, even though minimum efficiency norms in India are still at IE2, signifying customer focus on energy efficiency.
- **Process Automation:** Order inflows fell 32% YoY to Rs5.3bn with orders in chemicals and energy partly offsetting the absence of a large metal order from Q2CY23. Margin rose 503bps YoY to 16.2% aided by higher contribution from energy industries, services and exports. Momentum continues in energy and metals, while demand from minerals & mining is consolidating.
- **Robotics:** Order inflows jumped to Rs1.6bn (vs Rs610mn in Q2CY23) with momentum in auto sector driven by EVs. Margin rose 196bps YoY to 14.6% aided by higher share of service revenue.
- **Data Centers** was the highlight during the quarter, with momentum in smart power distribution and energy efficient technology. The segment is scaling up well, but there is still a long runway ahead with growing data consumption in India and policies that demands that data be stored within the country.

Financials

Income Statement (Rs m)

Y/e Dec	CY23	CY24E	CY25E	CY26E
Net Revenues	1,04,465	1,28,233	1,59,765	1,92,556
YoY gr. (%)	21.9	22.8	24.6	20.5
Cost of Goods Sold	63,286	73,413	92,903	1,12,549
Gross Profit	41,180	54,819	66,862	80,007
Margin (%)	39.4	42.8	41.9	41.6
Employee Cost	7,152	8,399	10,225	12,131
Other Expenses	8,854	9,489	12,302	14,827
EBITDA	14,898	23,326	27,879	33,023
YoY gr. (%)	54.9	56.6	19.5	18.5
Margin (%)	14.3	18.2	17.5	17.2
Depreciation and Amortization	1,199	1,285	1,523	1,701
EBIT	13,699	22,041	26,356	31,322
Margin (%)	13.1	17.2	16.5	16.3
Net Interest	127	141	128	154
Other Income	3,017	3,334	3,834	4,621
Profit Before Tax	16,589	25,234	30,063	35,789
Margin (%)	15.9	19.7	18.8	18.6
Total Tax	4,107	6,359	7,576	9,019
Effective tax rate (%)	24.8	25.2	25.2	25.2
Profit after tax	12,482	18,875	22,487	26,770
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	12,482	18,875	22,487	26,770
YoY gr. (%)	62.0	51.2	19.1	19.0
Margin (%)	11.9	14.7	14.1	13.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	12,482	18,875	22,487	26,770
YoY gr. (%)	21.7	51.2	19.1	19.0
Margin (%)	11.9	14.7	14.1	13.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,482	18,875	22,487	26,770
Equity Shares O/s (m)	212	212	212	212
EPS (Rs)	58.9	89.1	106.1	126.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Dec	CY23	CY24E	CY25E	CY26E
Non-Current Assets				
Gross Block	15,393	18,893	22,393	25,393
Tangibles	15,393	18,893	22,393	25,393
Intangibles	-	-	-	-
Acc: Dep / Amortization	5,638	6,922	8,445	10,146
Tangibles	5,638	6,922	8,445	10,146
Intangibles	-	-	-	-
Net fixed assets	9,755	11,970	13,948	15,246
Tangibles	9,755	11,970	13,948	15,246
Intangibles	-	-	-	-
Capital Work In Progress	784	784	784	784
Goodwill	-	-	-	-
Non-Current Investments	88	90	112	135
Net Deferred tax assets	1,027	1,027	1,027	1,027
Other Non-Current Assets	2,883	4,488	5,592	6,739
Current Assets				
Investments	-	-	2,000	5,000
Inventories	15,608	18,971	23,199	27,433
Trade receivables	25,443	31,268	38,956	46,952
Cash & Bank Balance	48,162	51,842	57,796	65,346
Other Current Assets	4,476	5,770	7,988	9,628
Total Assets	1,08,985	1,29,159	1,54,528	1,82,269
Equity				
Equity Share Capital	424	424	424	424
Other Equity	59,022	70,595	85,248	1,02,812
Total Network	59,446	71,019	85,672	1,03,235
Non-Current Liabilities				
Long Term borrowings	289	289	289	289
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	201	201	201	201
Trade payables	31,091	36,889	44,647	52,228
Other current liabilities	18,985	21,788	24,747	27,343
Total Equity & Liabilities	1,08,985	1,29,159	1,54,528	1,82,269

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Dec	CY23	CY24E	CY25E	CY26E
PBT	16,507	25,234	30,063	35,789
Add. Depreciation	1,199	1,285	1,523	1,701
Add. Interest	127	141	128	154
Less Financial Other Income	3,017	3,334	3,834	4,621
Add. Other	(2,346)	-	-	-
Op. profit before WC changes	15,486	26,660	31,713	37,645
Net Changes-WC	1,696	(5,693)	(4,722)	(5,715)
Direct tax	(3,667)	(6,359)	(7,576)	(9,019)
Net cash from Op. activities	13,515	14,608	19,416	22,911
Capital expenditures	(1,846)	(3,500)	(3,500)	(3,000)
Interest / Dividend Income	2,770	-	-	-
Others	40,432	16	(2,000)	(3,000)
Net Cash from Inv. activities	41,355	(3,484)	(5,500)	(6,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	(237)	-	-	-
Dividend paid	(2,331)	(7,302)	(7,834)	(9,207)
Interest paid	(127)	(141)	(128)	(154)
Others	-	-	-	-
Net cash from Fin. activities	(2,695)	(7,443)	(7,962)	(9,361)
Net change in cash	52,176	3,680	5,954	7,550
Free Cash Flow	11,684	11,108	15,916	19,911

Source: Company Data, PL Research

Key Financial Metrics

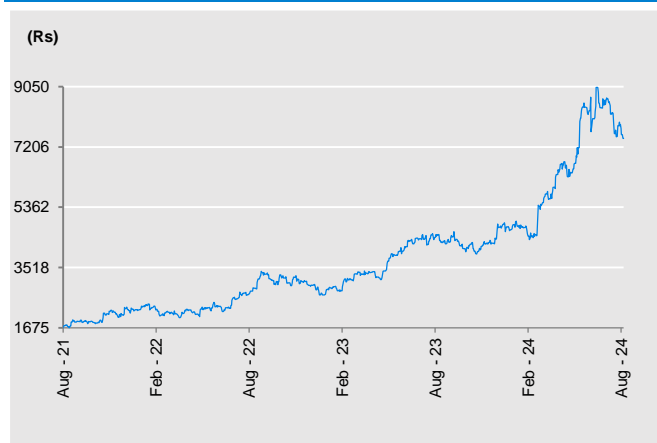
Y/e Dec	CY23	CY24E	CY25E	CY26E
Per Share(Rs)				
EPS	58.9	89.1	106.1	126.3
CEPS	64.6	95.1	113.3	134.4
BVPS	280.5	335.2	404.3	487.2
FCF	55.1	52.4	75.1	94.0
DPS	29.3	35.6	42.4	50.5
Return Ratio(%)				
RoCE	25.0	33.5	33.4	33.0
ROIC	154.6	118.8	103.5	95.2
RoE	22.9	28.9	28.7	28.3
Balance Sheet				
Net Debt : Equity (x)	(0.8)	(0.7)	(0.7)	(0.7)
Net Working Capital (Days)	35	38	40	42
Valuation(x)				
PER	135.3	89.5	75.1	63.1
P/B	28.4	23.8	19.7	16.4
P/CEPS	123.5	83.8	70.4	59.3
EV/EBITDA	110.2	70.2	58.5	49.0
EV/Sales	15.7	12.8	10.2	8.4
Dividend Yield (%)	0.4	0.4	0.5	0.6

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Dec	Q3CY23	Q4CY23	Q1CY24	Q2CY24
Net Revenue	27,692	27,575	30,804	28,309
YoY gr. (%)	30.6	13.6	27.8	12.8
Raw Material Expenses	16,842	16,461	17,612	15,250
Gross Profit	10,850	11,114	13,191	13,058
Margin (%)	39.2	40.3	42.8	46.1
EBITDA	4,385	4,172	5,652	5,425
YoY gr. (%)	107.9	14.5	98.1	55.6
Margin (%)	15.8	15.1	18.3	19.2
Depreciation / Depletion	303	329	314	310
EBIT	4,082	3,843	5,338	5,115
Margin (%)	14.7	13.9	17.3	18.1
Net Interest	9	82	38	45
Other Income	768	776	871	868
Profit before Tax	4,842	4,537	6,171	5,938
Margin (%)	17.5	16.5	20.0	21.0
Total Tax	1,222	1,085	1,575	1,511
Effective tax rate (%)	25.2	23.9	25.5	25.5
Profit after Tax	3,620	3,452	4,596	4,426
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,620	3,452	4,596	4,426
YoY gr. (%)	114.5	12.8	87.5	49.6
Margin (%)	13.1	12.5	14.9	15.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,620	3,452	4,596	4,426
YoY gr. (%)	78.8	12.8	87.5	49.6
Margin (%)	13.1	12.5	14.9	15.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,620	3,452	4,596	4,426
Avg. Shares O/s (m)	212	212	212	212
EPS (Rs)	17.1	16.3	21.7	20.9

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-24	Accumulate	8,400	8,679
2	14-May-24	Accumulate	8,400	7,984
3	12-Apr-24	Accumulate	5,331	6,645
4	22-Feb-24	Accumulate	5,329	4,985
5	09-Jan-24	Accumulate	4,984	4,753
6	09-Nov-23	Accumulate	4,950	4,311
7	05-Oct-23	Accumulate	5,013	4,068
8	12-Aug-23	Accumulate	5,013	4,511

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	8,400	8,679
2	Apar Industries	Accumulate	10,399	9,110
3	BEML	Accumulate	4,484	3,914
4	Bharat Electronics	Accumulate	341	321
5	BHEL	Reduce	264	309
6	Carborundum Universal	Hold	1,650	1,719
7	Cummins India	Hold	3,719	4,134
8	Engineers India	Hold	264	268
9	GE T&D India	Hold	1,601	1,585
10	Grindwell Norton	Accumulate	2,749	2,650
11	Harsha Engineers International	Hold	436	572
12	Hindustan Aeronautics	Hold	4,515	5,552
13	Kalpataru Projects International	Accumulate	1,413	1,327
14	KEC International	Hold	880	874
15	Larsen & Toubro	BUY	4,130	3,519
16	Praj Industries	BUY	804	700
17	Siemens	Accumulate	7,030	7,884
18	Thermax	Reduce	4,237	4,984
19	Triveni Turbine	BUY	719	619
20	Voltamp Transformers	Accumulate	14,922	14,174

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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(Indian Clients)

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