

Q2CY24 Result Update | Capital Goods

Strong backlog- sign of a promising outlook in near term..

August 11, 2024

ABB India posted their highest ever EBITDA Margin of 19.2% & PAT margins of ~15.2% in Q2CY24 on the back of strong execution in motion & electrification segment - consequently a revenue grew by 13% on a YoY basis. ABB posted a robust set of results for Q2CY23 - Order inflows remained robust in Q2 at Rs 34.3bn culminating into ABB's highest ever backlog of Rs 95.1bn; base orders remained flat while large orders grew by 46% to Rs 5.45bn. ABB continues to see strong inquiries & remains positive across all segments provided momentum in ordering from government & private capex sustains post elections as well.

Key takeaways from the concall

- **Revenue Impact from Elections:** The company faced delays in revenue schedules due to elections, which could have added approximately ₹200 crores to revenues.
- **Forex Gains and Margins:** Foreign exchange gains contributed to an ~1.5% improvement in margins, of approximately ₹40 crores.
- **Base Orders & Large orders:** ~40% of backlog is for large/ longer gestation products which might take 15-18 months to execute. Most of these orders have a price escalation clauses built into contracts. Balance 60% are short cycle product order/ base orders which are executed within 6-9 months & are fixed price contracts in nature. ABB is seeing growth in base orders especially from tier-2/ tier-3 cities.
- **External Factors in Revenue Growth:** PBT Margins grew by ~7% on account of both external as well as internal efficiencies, ~3.5% attributed to external factors such as price revisions and product mix, with the remainder due to operating leverage & internal productivity.

Financial Summary

Y/E Mar (Rs mn)	CY21	CY22	CY23E	CY24E	CY25E	CY26E
Net sales	69,340	85,675	1,04,465	1,29,965	1,53,850	1,84,120
EBIDTA	5,567	9,619	14,898	23,530	29,005	36,074
Margins (%)	8.0	11.2	14.3	18.1	18.9	19.6
Adjusted net profit	5,197	876	12,421	19,459	23,931	29,557
EPS (Rs)	24.5	4.1	58.6	91.8	112.9	139.4
P/E (x)	350	2,073	146	93	76	61
EV/EBITDA (x)	325	186	121	75	61	48
RoCE (%)	13.70%	19.39%	24.94%	32.18%	31.89%	31.50%
RoE (%)	12.85%	1.77%	20.89%	26.77%	26.48%	26.01%

Source: Company

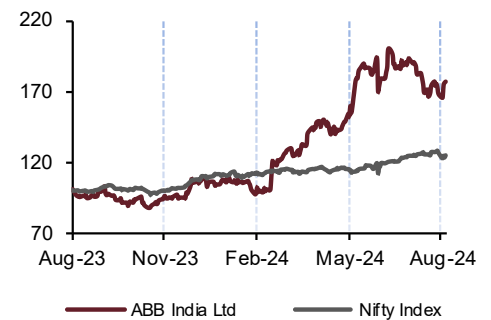
One Year Performance

Rating	TP (Rs)	Up/Dn (%)
ACCUMULATE	8,830	11

Market Data

Current price	Rs	7,950
Market Cap (Rs.Bn)	(Rs Bn)	1,689
Market Cap (US\$ Mn)	(US\$ Mn)	20,120
Face Value	Rs	2
52 Weeks High/Low	Rs	9200 / 3847.5
Average Daily Volume	('000)	657
BSE Code		500002
Bloomberg		ABB.IN

Source: Bloomberg



Source: Bloomberg

% Shareholding	Jun-24	Mar-24
Promoters	75.00	75.0
Public	25.00	25.0
Total	100	100

Source: BSE

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- **Segment & End-User Industries Outlook:** In the Motion Segment - Strong inquiries & traction seen in heavy industry, transportation, and logistics, showed growth. However in the Electrification segment challenges were particularly seen in the building sector, which witnessed a 18% de-growth. Robotics segment primarily driven by the automotive sector, the total robots-in-use saw almost 50% growth pan India.
- **Service Revenue aiding margins:** There was consistent growth in service revenues across all segments, leading to higher margins.
- **Motors:** Approximately 50% of production is now focused on IE3 and IE4 motors, despite the current Indian norms still being IE2.
- **Capacity Expansion Plans:** ABB continues to upgrade its existing facilities for the Electrification segment , plans to further expand capacity for its Electrification Distribution systems & Smart Power division over the next three years. The Motion segment has also seen significant expansion in recent times for LV, HV Motors. A new plant for Process Automation segment is being set up in Bangalore, the new plant will also be able to support additional demand for motion products being catered to railway segment such as traction converter, propulsion systems, etc.. In addition to above, ABB India has unused land banks in Vadodara and Faridabad which can be used for future expansion.
- **Leadership Focus:** The new group CEO is emphasizing on growth.
- **Growth in margins due to favourable commodity prices:** After a period of high prices when orders were booked, prices have now stabilized, impacting future revenue expectations.

Financial Metrics

- Revenue at Rs 28,309 Mn vs Rs 25086 Mn (+13% YoY) vs Rs 30804 Mn (-8% QoQ) ||
- EBITDA at Rs 5425 Mn vs Rs 3487 Mn (+56% YoY) vs ₹5652 Mn (-4% QoQ)
- EBITDA Margin at 19.2% vs 13.9% (YoY) vs 18.3% (QoQ)
- PBT Rs 5938 Mn vs Rs 3931 Mn(+51% YoY) vs Rs 6171 Mn (-4% QoQ)
- EPS at Rs 20.88 vs ₹ 13.95 (YoY) vs ₹21.68 (QoQ)
- Order inflows –34350 Mn vs 30440 Mn (+13% YoY) vs 36,070 (-5% QoQ)

Segmentals

- **Electrification: (38% of Income)**
 - **Orders Inflows** saw a 30% jump from 11,000 Mn to YoY to Rs 14,320 Mn on a YoY Basis on account of some large orders from data centers & power distribution solutions.
 - **Order backlog** grew by 39% YoY to Rs 27,780 Mn
 - **Revenues** grew by 12% YoY to Rs 11,200 Mn – owing to strong backlog execution of system & product orders.
 - **PBIT margins** of 23.1% vs 16.3% YoY and 23.7% QoQ .
 - Increase in margins on account of better capacity utilisations, execution of higher margin order & increase in revenue from services this quarter.
- **Motion (37% of Income)**
 - **New Orders** up by 18% YoY to Rs 13,290 Mn on account of large orders from railways & metro segment for traction converters & propulsion systems.
 - **Healthy growth in order backlog** of ~55% YoY to Rs 39,300 Mn since certain orders are in the nature of project orders
 - **Revenues** improved by 17 % YoY to Rs 10,760Mn on account of propulsion equipment & sale of motors, healthy contribution from services.
 - **Significant improvement in PBIT margins** from 14.5% to 23.1% YoY and 21.4% QoQ on account of better price realizations.
- **Process Automation (22% of Income)**
 - **New Orders** decreased by 32% YoY due to one large order in Q2CY23 in metals sector.
 - **Order backlog** remains down by 14% to ~25,560 Mn on account of higher execution this quarter
 - **Revenue** grew by 24% YoY to Rs 6330 mn on account of better execution & increase in export & services revenue.
 - **Improvement in PBIT margins** 16.3% v/s 9.2% YoY and 12.8% QoQ – due to better product mix & value chain optimisation.
- **Robotics (3% of Income)**
 - **Orders received** have decreased by 3% YoY to Rs 1520 Mn
 - **Order backlog** plunged by 10% YoY to Rs 1870 Mn
 - **Revenue** grew by 60% YoY to Rs 1090 mn due to better execution
 - **PBIT margins** 15.4% v/s 15.8% YoY and 11.8% QoQ
- **Breakup by Mode of Offering:**
 - **76% of revenue is from short cycle Products as against 76% in Q2CY23:** in the nature of fast moving industrial goods with a shorter turnaround time
 - **12% of Revenues in the nature of services as against 13% in Q2CY23:** higher share of services will help ABB to drive their margins forward

- **12% by nature of projects as against 12% in Q2CY23-** these are orders with a longer gestation period & provide a certain level of consistency in revenues over time. **The current order backlog of 95,170 Mn contains almost 40% of the orders in the nature of projects which generally convert to revenue over a period of 15-18 months.**
- **Geographical Breakup:**
 - **Domestic share in revenue - 88% vs 89%(YoY) -** indicating majority of growth coming from India Business.
 - **Share of Exports in revenue -12% vs 11%(YoY)-** on absolute levels exports have increased , however due to high growth in India - relatively share of exports has gone down. Even Export orders up by 39% this quarter on account of large order from speciality chemical major.

Valuation & Outlook

Looking at the emphasis placed by Government on infra & capex push in the previous 2 budgets, The capex cycle in India has just begun & the capital goods sector looks structurally strong after years of volatility. Themes like **Datacenters** (expected to grow at **25% CAGR**), **waste water management** (growing at **10% CAGR**), **electronics** & ancilliary component manufacturing (growing at **30% CAGR** due to the PLI incentive scheme) are picking up at rapid pace. The Indian economy is further bolstered by expedite growth in **Railways & metro segment (growing at >15% CAGR)** & growth in **building construction & infra.**

ABB India's product profile, reputation, brand presence & technology places it in a sweet spot to seize this growth story & generate sizeable profits, high free cashflow generation & superior RoCE in the forthcoming years

At CMP of Rs 7,950 it trades at 93x CY24E EPS of Rs. 91.8 and 76x CY25E EPS of Rs.112.9 & 61x CY26E EPS of 139.4 Owing to a consistent strong result performance by the company in recent 8 quarters we have valued ABB at 70x estimated Jun-26 earnings arriving at a target price of Rs 8,830 (+11% Upside). We maintain our "Accumulate" Rating on the stock.

Quarterly Financials

Particulars (Rs Mns)	Q2CY23	Q1CY24	Q2CY24	YoY growth	QoQ Growth
Revenue from Operations	25,086	30,804	28,309	13%	-8.10%
Other Income	750	871	868	16%	-0.45%
Total Mfg cost	15,280	17,612	15,250	0%	-13.41%
Subcontracting expenses	640	796	928	45%	16.67%
Employee Benefits Expense	1,681	2,211	2,030	21%	-8.19%
Other Expenses	3,998	4,533	4,675	17%	3.14%
Total Expenses	21599	25152	22884	6%	-9.02%
EBITDA (Excluding Other Income)	3487	5652	5425	56%	-4.01%
Depreciation and Amortisation Expenses	292	314	310	6%	-1.43%
EBIT / PBIT	3945	6209	5983	52%	-3.64%
Finance Costs	14	38	45	224%	18.37%
EBT/ PBT (excluding exceptional items)	3931	6171	5938	51%	-3.78%
Exceptional Items*	-	-	-		-
PBT Including exceptional items	3931	6171	5938	51%	-3.78%
Tax Expense	973	1,575	1,511	55%	-4.04%
PAT from Continuing Operations after Tax	2958	4596	4426	50%	-3.69%
Earning Per Share (EPS)	13.95	21.68	20.88	50%	-3.69%
Orderbook(%)					
Order Inflows	30,440	36,070	34,350	13%	-4.77%
Order Backlog	77,270	89,350	95,170	23%	6.51%
Margins (%) (In bps)					
Gross Margins	39.1%	42.8%	46.1%	703.74	330
EBITDA Margins (Excl Other Income)	13.9%	18.3%	19.2%	526.26	82
PBT Margins before exceptional items	15.2%	19.5%	20.4%	513.49	87
PAT Margins	11.4%	14.5%	15.2%	372.17	66
As a % to sales					
Mfg Cost as a % to sales	60.9%	57.2%	53.9%	-703.74	-330
EE & Subcon Cost as a % to sales	9.3%	9.8%	10.4%	119.70	69
Other exps as a % to sales	15.9%	14.7%	16.5%	57.78	180
Segmental Revenue (incl. Intersegment)					
Electrification	10,056	12,963	11,214	12%	-13.49%
Motion	9,173	10,128	10,758	17%	6.23%
Process Automation	5,096	7,263	6,327	24%	-12.89%
Robotics & Discrete Automation & Others	1,225	1,092	843	-31%	-22.80%
Segmental Results (PBIT)					
Electrification	1,640	3,078	2,594	58%	-15.70%
Motion	1,329	2,163	2,490	87%	15.09%
Process Automation	568	1,181	1,023	80%	-13.38%
Robotics & Discrete Automation	155	168	123	-21%	-27.08%
Segmental Results (PBIT Margins)					
Electrification	16.31%	23.74%	23.14%	682.40	-61
Motion	14.49%	21.36%	23.14%	865.40	178
Process Automation	11.14%	16.26%	16.17%	503.24	-9
Robotics & Discrete Automation	12.62%	15.43%	14.57%	195.56	-85

Source: Dalal & Broacha Research

Financials

P&L (Rs mn)	CY21	CY22	CY23E	CY24E	CY25E	CY26E
Net Sales	69,340	85,675	1,04,465	1,29,965	1,53,850	1,84,120
Total Operating Expenses	44,154	53,012	63,286	73,518	86,925	1,04,028
Subcontracting Charges	2,110	2,415	2,740	3,899	4,615	5,524
Employee Cost	5,882	6,353	7,152	8,224	9,458	10,877
Other Expenses	11,627	14,277	16,391	20,794	23,847	27,618
Operating Profit	5,567	9,619	14,898	23,530	29,005	36,074
Depreciation	1,027	1,047	1,199	1,434	1,763	2,180
PBIT	4,540	8,572	13,699	22,095	27,242	33,894
Other income	1,596	1,795	3,017	4,029	4,923	5,892
Interest	107	131	127	179	257	377
PBT (Before exceptional)	6,029	10,235	16,589	25,946	31,908	39,409
Exceptional	1,213	3,393	-	-	-	-
PBT (post exceptional)	7,243	13,628	16,589	25,946	31,908	39,409
Provision for tax	1,918	3,372	4,107	6,486	7,977	9,852
PAT (From continuing operations)	5,325	10,256	12,482	19,459	23,931	29,557
PAT (From Discontinuing operations)	(128)	(9,380)	(61)	-	-	-
MI	-	-	-	-	-	-
Reported PAT	5,197	876	12,421	19,459	23,931	29,557
Adjusted Profit	5,197	876	12,421	19,459	23,931	29,557

Balance Sheet (Rs mn)	CY21	CY22	CY23E	CY24E	CY25E	CY26E
Equity capital	424	424	424	424	424	424
Reserves	40,028	48,970	59,026	72,276	89,934	1,13,219
Net worth	40,452	49,394	59,450	72,700	90,358	1,13,643
Non Current Liabilities	238	285	424	458	638	911
Current Liabilities	39,543	43,503	50,142	62,919	74,567	89,383
discontinued operations/ assets	495	-	-	-	-	-
TOTAL LIABILITIES	80,727	93,182	1,10,016	1,36,077	1,65,564	2,03,936
Non Current Assets	14,374	14,196	14,537	16,949	19,372	21,804
Fixed Assets	8,793	9,538	10,393	12,136	13,898	15,488
Goodwill	146	146	146	146	146	146
Non Current Investments	-	-	16	-	-	-
Non-current assets tax (net)	2,674	1,912	1,369	1,705	2,019	2,419
Deferred Tax Asset	939	898	1,027	1,027	1,027	1,027
Other Financial Assets	87	75	73	50	50	50
Other Non Current Assets	1,736	1,626	1,514	1,884	2,232	2,674
Current Assets	65,752	78,986	95,475	1,19,128	1,46,192	1,82,133
Current investments	-	4,932	-	6,000	7,000	7,000
Inventories	10,091	14,207	15,608	19,584	23,183	27,744
Trade Receivables	18,838	20,930	25,443	32,046	37,936	45,400
Cash and Bank Balances	7,181	31,469	8,769	43,769	58,919	81,022
Bank Balances other than cash & cash eq	19,696	22	39,393	10,000	10,000	10,000
Short Term Loans and Advances	185	49	54	-	-	-
Other Financial Assets	6,690	2,931	1,733	2,157	2,554	3,060
Other current assets tax (net)	3,070	4,447	4,476	5,573	6,600	7,907
Other Asset s(associated with discontinued operations/ assets held for sale)	602	-	-	-	-	-
TOTAL ASSETS	80,727	93,182	1,10,016	1,36,077	1,65,564	2,03,936

Cash Flow St. (Rs. mn)	CY21	CY22	CY23E	CY24E	CY25E	CY26E
PBT (including Discontinued Operations)	7,072	12,375	16,507	25,946	31,908	39,409
Add: Dep. & Amort.	1,027	1,047	1,199	1,434	1,763	2,180
Add: Interest Expenses	107	131	127	179	257	377
Operating profit before working capital change	8,206	13,553	17,833	27,558	33,928	41,966
(Inc)/Dec in						
Working capital adjustment	(1,166)	547	(1,191)	(2,503)	(2,290)	(2,903)
Gross cash generated from operations	7,040	14,100	16,642	25,056	31,638	39,063
Direct taxes paid	(1,790)	6,008	(4,046)	(6,486)	(7,977)	(9,852)
Others	1,268	(12,682)	915	2,333	2,239	2,850
CF from Oper. activities	6,488	7,426	13,512	20,903	25,900	32,061
CF from Inv. activities	(20,079)	18,262	(33,522)	20,285	(4,524)	(3,771)
CF from Fin. activities	(1,268)	(1,402)	(2,695)	(6,186)	(6,225)	(6,188)
Cash generated/(utilised)	(14,859)	24,287	(22,705)	35,001	15,151	22,102
Cash at start of the year	22,040	7,181	31,469	8,769	43,769	58,919
Cash at end of the year	7,181	31,469	8,769	43,769	58,919	81,022
Balance sheet	7,181	31,469	8,764	43,769	58,919	81,022
Diff on account of exchange ga	0	0	4.90	(0.20)	-	-
Ratios	CY21	CY22	CY23E	CY24E	CY25E	CY26E
OPM	8.03%	11.23%	14.26%	18.10%	18.85%	19.59%
NPM	7.33%	1.00%	11.56%	14.52%	15.07%	15.56%
Tax Rate	26.48%	24.74%	24.76%	25.00%	25.00%	25.00%
Growth Ratios (%)						
Net Sales	19.12%	23.56%	21.93%	24.41%	18.38%	19.68%
Operating Profit	105.29%	72.78%	54.88%	57.94%	23.27%	24.37%
PBT	145.51%	69.76%	62.08%	56.40%	22.98%	23.51%
PAT	137.07%	-83.14%	1317.70%	56.67%	22.98%	23.51%
Per Share (Rs.)						
Net Earnings (EPS)	24.51	4.13	58.59	91.79	112.88	139.42
Cash Earnings (CPS)	29.36	9.07	64.24	98.55	121.20	149.70
Payout ratio	21%	11%	9%	6%	5%	4%
Dividend	5.15	0.45	5.50	5.50	5.80	5.80
Book Value per share (BVPS)	190.81	232.99	280.42	342.92	426.22	536.05
Free Cash Flow	6,022	6,781	12,660	19,154	24,138	30,470
Valuation Ratios						
P/E(x)	349.51	2,073.30	146.24	93.35	75.90	61.46
P/B(x)	44.90	36.77	30.55	24.99	20.10	15.98
EV/EBIDTA(x)	325.02	185.59	121.36	75.35	60.61	48.13
Div. Yield(%)	0.06	0.01	0.06	0.06	0.07	0.07
FCFF Yield(%)	0.33	0.37	0.70	1.05	1.33	1.68
Return Ratios (%)						
ROE	12.85%	1.77%	20.89%	26.77%	26.48%	0.00%
ROCE	13.70%	19.39%	24.94%	32.18%	31.89%	1543.00%
<i>Source: Dalal& Broacha Research</i>						
RoA	6%	1%	11%	14%	14%	14%

Source: Dalal & Broacha Research

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