

13 May 2025

Signs of slowdown in capex momentum

ABB India (ABB IN) witnessed a muted topline growth in Q1CY25, due to slowdown in order inflows on account of a high base in Q1CY24, sluggishness in large project orders and deferred capex in various sectors (given geopolitical tensions). Margin continued to improve YoY, led by better-priced orders and operating leverage. We downgrade ABB to Reduce (from Accumulate) with a lower TP of INR 5,580 on 60x March CY27E P/E, factoring in slower-than-expected growth momentum in government and private capex and slow normalization in margin. We expect an earnings CAGR of 7% in CY24-27E with an average ROE and ROCE of 23% each in CY25E-27E.

**Muted growth due to slowdown in order inflows:** Revenue grew just 3% YoY in Q1CY25, due to muted growth in electrification and a drop in the process automation segment on account of lower revenue from systems and process industries. Segment-wise, electrification (42% of Q1CY25 revenue) grew 5% YoY to INR 13.6bn due to slower order inflows, robotics & motion (39%) grew 11% YoY to INR 12.5bn led by execution of high value projects, even as process automation (18%) fell 19% YoY to INR 5.9bn due to a change in delivery schedule of customers. Services accounted for 12-13% of the topline, with ABB looking to ramp it up to 15%.

**Inflows dropped led by order deferrals, high base:** Order inflows decelerated in Q1CY25, with ABB indicating muted momentum due to slow decision-making for large orders and deferred capex in process industries, oil & gas and power generation (on account of global uncertainties and certain domestic issues). In Q1CY25, inflows grew 4% YoY due to a higher base, while order backlog expanded 6% QoQ. Inflows for the electrification segment fell 2% YoY to INR 17.6bn, and from process automation dropped 16% YoY to INR 4.5bn. Inflows from robotics and motion grew 19% YoY to INR 15.8bn due to a large order for traction solutions from the Railways (in motion) and strong inflows in robotics.

**Margin continued to expand led by better orders, higher service mix:** Margin continued to expand – Q1 EBITDA margin rose 10bps YoY to 18.4%. Margin improvement was led by the receipt of better orders (on pricing), operating leverage and rising contribution of services. Segment-wise, EBIT margin in electrification expanded by 100bps YoY to 24.7%, led by product mix. Margin in robotics and motion was flat at 20.8%, and from process automation rose 10bps YoY to 16.4%, due to higher service contribution. ABB seeks to maintain 12-15% PAT margin, going forward.

**Downgrade to Reduce with lower TP of INR 5,580:** We lower our earnings by 6% for CY25E and by 5% for CY26E, due to a slowdown in capex momentum likely leading to lower inflows and topline growth. We **downgrade ABB to Reduce** from Accumulate with a lower TP of INR 5,580 from INR 5,860, on 60x (unchanged) March CY27E P/E, due to lower sales growth and margins likely having peaked (and now moving towards gradual normalization). We expect an earnings CAGR of 7% in CY24-27E with an average ROE and ROCE of 23% each in CY25E-27E.

Key Financials

| YE December       | CY23    | CY24    | CY25E   | CY26E   | CY27E   |
|-------------------|---------|---------|---------|---------|---------|
| Revenue (INR mn)  | 103,667 | 120,877 | 136,837 | 157,270 | 183,723 |
| YoY (%)           | 22.0    | 16.6    | 13.2    | 14.9    | 16.8    |
| EBITDA (INR mn)   | 14,099  | 22,046  | 22,607  | 24,573  | 28,297  |
| EBITDA margin (%) | 13.6    | 18.2    | 16.5    | 15.6    | 15.4    |
| Adj PAT (INR mn)  | 11,683  | 17,740  | 16,986  | 18,596  | 21,641  |
| YoY (%)           | 22.1    | 51.8    | (4.3)   | 9.5     | 16.4    |
| Fully DEPS (INR)  | 55.1    | 83.7    | 80.2    | 87.8    | 102.1   |
| RoE (%)           | 21.5    | 27.2    | 22.4    | 21.4    | 21.7    |
| RoCE (%)          | 23.7    | 31.9    | 27.9    | 26.6    | 26.7    |
| P/E (x)           | 98.7    | 65.0    | 67.9    | 62.0    | 53.3    |
| EV/EBITDA (x)     | 77.9    | 49.8    | 48.6    | 44.7    | 38.8    |

Note: Pricing as on 12 May 2025; Source: Company, Elara Securities Estimate

Rating: **Reduce**

Target Price: **INR 5,580**

Upside: **3%**

CMP: **INR 5,441**

As on 12 May 2025

Key data

|                            |              |
|----------------------------|--------------|
| Bloomberg                  | ABB IN       |
| Reuters Code               | ABB.NS       |
| Shares outstanding (mn)    | 212          |
| Market cap (INR bn/USD mn) | 1,153/13,503 |
| EV (INR bn/USD mn)         | 1,098/12,866 |
| ADTV 3M (INR mn/USD mn)    | 2,809/33     |
| 52 week high/low           | 9,200/4,590  |
| Free float (%)             | 25           |

Note: as on 12 May 2025; Source: Bloomberg

Price chart



Source: Bloomberg

|                  | Q2 CY25 | Q3 CY24 | Q4 CY24 | Q1 CY25 |
|------------------|---------|---------|---------|---------|
| Shareholding (%) |         |         |         |         |
| Promoter         | 75.0    | 75.0    | 75.0    | 75.0    |
| % Pledge         | 0.0     | 0.0     | 0.0     | 0.0     |
| FII              | 12.1    | 12.3    | 11.8    | 10.3    |
| DII              | 5.6     | 5.4     | 5.7     | 7.0     |
| Others           | 7.3     | 7.3     | 7.5     | 7.7     |

Source: BSE

| Price performance (%) | 3M    | 6M     | 12M    |
|-----------------------|-------|--------|--------|
| Nifty                 | 1.9   | (0.6)  | 9.3    |
| ABB India             | (4.3) | (22.8) | (22.1) |
| NSE Mid-cap           | 0.6   | (3.8)  | 8.0    |
| NSE Small-cap         | (6.0) | (14.5) | 0.5    |

Source: Bloomberg

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## Financials (YE December)

| Income Statement (INR mn)                  | CY23           | CY24           | CY25E          | CY26E          | CY27E          |
|--|----------------|----------------|----------------|----------------|----------------|
| Total Revenue                              | 103,667        | 120,877        | 136,837        | 157,270        | 183,723        |
| Gross Profit                               | 37,170         | 49,375         | 56,037         | 63,284         | 73,087         |
| EBITDA                                     | 14,099         | 22,046         | 22,607         | 24,573         | 28,297         |
| EBIT                                       | 12,900         | 20,757         | 21,195         | 23,064         | 26,691         |
| Interest expense                           | 127            | 165            | 150            | 140            | 125            |
| Other income                               | 3,017          | 3,534          | 2,016          | 2,303          | 2,747          |
| PBT  | 15,791         | 24,126         | 23,061         | 25,227         | 29,313         |
| Tax  | 4,107          | 6,387          | 6,075          | 6,632          | 7,672          |
| Reported PAT                               | 11,683         | 17,740         | 16,986         | 18,596         | 21,641         |
| Adjusted PAT                               | 11,683         | 17,740         | 16,986         | 18,596         | 21,641         |
| Balance Sheet (INR mn)                     | CY23           | CY24           | CY25E          | CY26E          | CY27E          |
| Shareholders' Equity                       | 59,446         | 70,754         | 80,958         | 92,569         | 107,269        |
| Trade Payables                             | 31,091         | 31,980         | 39,683         | 45,608         | 53,280         |
| Provisions & Other Current Liabilities     | 19,051         | 20,759         | 28,736         | 33,027         | 38,582         |
| Other long term liabilities                | 424            | 420            | 420            | 420            | 420            |
| <b>Total liabilities &amp; equity</b>      | <b>110,012</b> | <b>123,913</b> | <b>149,796</b> | <b>171,624</b> | <b>199,550</b> |
| Net Fixed Assets                           | 9,940          | 10,619         | 10,288         | 10,079         | 9,772          |
| Business Investments / other NC assets     | 4,598          | 5,670          | 5,272          | 5,272          | 5,272          |
| Cash, Bank Balances & treasury investments | 48,162         | 55,078         | 60,101         | 71,498         | 85,471         |
| Inventories                                | 15,608         | 17,780         | 20,619         | 23,698         | 27,684         |
| Sundry Debtors                             | 25,443         | 29,837         | 32,991         | 37,486         | 43,792         |
| Other Current Assets                       | 6,263          | 4,931          | 20,526         | 23,591         | 27,558         |
| <b>Total Assets</b>                        | <b>110,012</b> | <b>123,914</b> | <b>149,796</b> | <b>171,624</b> | <b>199,550</b> |
| Cash Flow Statement                        | CY23           | CY24           | CY25E          | CY26E          | CY27E          |
| <b>Cashflow from Operations</b>            | <b>12,070</b>  | <b>16,794</b>  | <b>13,685</b>  | <b>20,910</b>  | <b>23,472</b>  |
| Capital expenditure                        | (2,054)        | (2,197)        | (802)          | (1,300)        | (1,300)        |
| Acquisitions / divestitures                | 4,916          | (1)            | -              | -              | -              |
| <b>Free Cash Flow</b>                      | <b>14,932</b>  | <b>14,595</b>  | <b>12,882</b>  | <b>19,610</b>  | <b>22,172</b>  |
| Cashflow from Financing                    | (3,193)        | (7,679)        | (7,860)        | (8,213)        | (8,198)        |
| Net Change in Cash / treasury investments  | 11,739         | 6,917          | 5,022          | 11,397         | 13,974         |
| Key assumptions & Ratios                   | CY23           | CY24           | CY25E          | CY26E          | CY27E          |
| Dividend per share                         | 29.3           | 30.0           | 32.0           | 33.0           | 33.0           |
| Book value per share                       | 280.5          | 333.9          | 382.1          | 436.9          | 506.2          |
| RoCE (Pre-tax)                             | 23.7           | 31.9           | 27.9           | 26.6           | 26.7           |
| ROIC (Pre-tax)                             | 106.4          | 154.0          | 116.0          | 110.0          | 124.5          |
| ROE%                                       | 21.5           | 27.2           | 22.4           | 21.4           | 21.7           |
| Asset Turnover                             | 11.0           | 11.8           | 13.1           | 15.4           | 18.5           |
| Net Debt to Equity (x)                     | (0.8)          | (0.8)          | (0.7)          | (0.8)          | (0.8)          |
| Net Debt to EBITDA (x)                     | (3.4)          | (2.5)          | (2.7)          | (2.9)          | (3.0)          |
| Interest cover (x) (EBITDA/ int exp)       | 111.4          | 134.0          | 150.7          | 175.5          | 226.4          |
| Total Working capital days (WC/rev)        | 175.4          | 178.4          | 186.4          | 192.7          | 198.3          |
| Valuation                                  | CY23           | CY24           | CY25E          | CY26E          | CY27E          |
| P/E (x)                                    | 98.7           | 65.0           | 67.9           | 62.0           | 53.3           |
| P/Sales (x)                                | 11.1           | 9.5            | 8.4            | 7.3            | 6.3            |
| EV/ EBITDA (x)                             | 77.9           | 49.8           | 48.6           | 44.7           | 38.8           |
| EV/ OCF (x)                                | 91.0           | 65.4           | 80.3           | 52.5           | 46.8           |
| FCF Yield                                  | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| Price to BV (x)                            | 19.4           | 16.3           | 14.2           | 12.5           | 10.7           |
| Dividend yield (%)                         | 0.5            | 0.6            | 0.6            | 0.6            | 0.6            |

Expect revenue CAGR of 15% in CY24-27E

Note: Pricing as on 12 May 2025; Source: Company, Elara Securities Estimate

**Exhibit 1: Quarterly performance**

| YE December (INR mn)    | Q1CY25   | Q1CY24 | YoY (%) | Q4CY24 | QoQ (%) | Q1CY25E | Variance % |
|-------------------------|----------|--------|---------|--------|---------|---------|------------|
| Revenue (net of excise) | 1,21,883 | 30,804 | 295.7   | 29,122 | 318.5   | 35,730  | 241.1      |
| EBITDA                  | 23,052   | 5,652  | 307.9   | 5,402  | 326.7   | 6,374   | 261.7      |
| EBITDA margin (%)       | 19       | 18     | 1.0     | 20     | (3.2)   | 18      | 6.0        |
| Other income            | 3,534    | 871    | 305.6   | 866    | 308.0   | 900     | 292.7      |
| Interest income         | 165      | 38     | 331.8   | 51     | 220.7   | 30      | 448.3      |
| Depreciation            | 1,289    | 314    | 310.3   | 337    | 282.6   | 350     | 268.3      |
| PBT                     | 25,133   | 6,171  | 307.3   | 7,051  | 256.4   | 6,894   | 264.6      |
| Tax                     | 6,387    | 1,575  | 305.5   | 1,732  | 268.7   | 1,737   | 267.6      |
| Tax rate (%)            | 25       | 26     | (0.4)   | 25     | 3.4     | 25      | 0.8        |
| Reported PAT            | 18,746   | 4,596  | 307.9   | 5,319  | 252.4   | 5,157   | 263.5      |
| Adj. PAT                | 18,746   | 4,596  | 307.9   | 5,319  | 252.4   | 5,157   | 263.5      |
| NPM                     | 308      | 87     | 252.0   | 54     | 469.2   | 12      | 2423.7     |
| EPS (INR)               | 88       | 22     | 307.9   | 25     | 252.4   | 24      | 263.5      |

Source: Company, Elara Securities Estimate

**Q1CY25 – Key takeaways from earnings call**
**Q1 performance**

- ▶ Margins improved due to higher-margin orders, cost optimization and operating leverage.
- ▶ Order inflows grew 4% YoY with base orders up 10% YoY.
- ▶ Volumes grew across business segments but revenue growth was offset by a shortfall in the process automation segment.
- ▶ Inflows from electrification declined due to receipt of a one-time large order in Q1FY24.
- ▶ In the Motion segment, revenue was higher from drive products and system drives, and execution of high-value projects.
- ▶ Revenue from the process automation segment was impacted due to a change in delivery schedule of the customers.
- ▶ Other expenses and employee costs were higher due to higher volumes.
- ▶ An expanding product portfolio in electrification generated good demand and is expected to drive future growth.
- ▶ The contribution of the service segment was ~12-13%. ABB is targeting to grow this to 15%. Export services are seeing robust growth.
- ▶ Siemens Gamesa was acquired by the global entity. ABB India is only buying certain inventories and capital equipment (mainly for wind and renewable portfolio).
- ▶ ABB expects to maintain 12-15% PAT margin.
- ▶ Electrification and motion account for 70% of imports and the balance is from robotics. However, in terms of product mix, the share of robotics import is the highest, followed by power electronics and electronic switches.

**Key orders received and projects commissioned**

- ▶ ABB received a large order for propulsion equipment in traction motors.
- ▶ In process automation, the share of system orders was lower and high-value energy orders in Q1FY24 resulted in a 16% drop in inflows YoY.
- ▶ Robotics saw strong momentum in order inflows and execution.
- ▶ Large orders do exist in the market but decision making is slow.
- ▶ Process automation mainly comprises the projects business (10% of the overall portfolio). The pipeline has been boosted by capex announced by companies in the process industries, government infra projects, and oil & gas and power generation projects. But due to global

uncertainties and domestic issues, customers have been delaying these orders (expect such orders in the future).

- ▶ Export orders increased 40% YoY.
- ▶ Capacity will be expanded for smaller business segments that are seeing higher volume growth
  - Process automation, electrification (on growth and expanding product portfolio) and motion.

#### Exhibit 2: Valuation

| (INR)                     |                 |
|---------------------------|-----------------|
| EPS – CY26E               | 92.9            |
| EPS – CY27E               | 107.5           |
| Five-year average P/E (x) | 64.1            |
| Target multiple (x)       | 60              |
| March 2027E EPS           | 92.9            |
| <b>Target price</b>       | <b>5,580.00</b> |

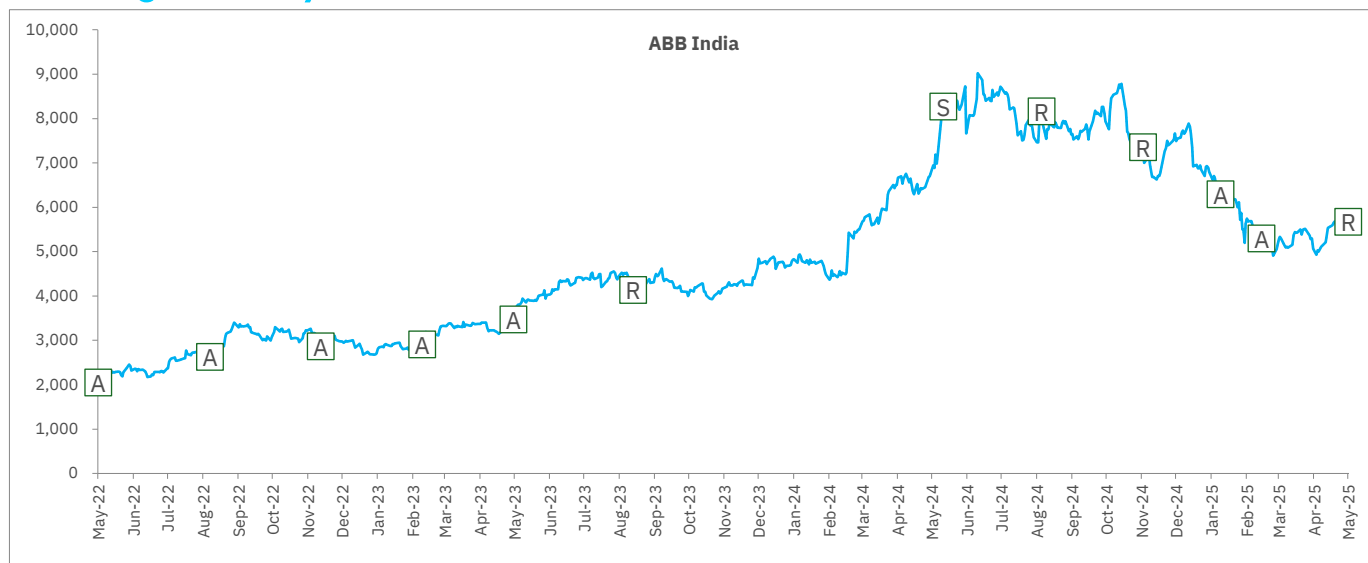
Source: Elara Securities Estimate

#### Exhibit 3: Change in estimates

| (INR mn)          | Earlier           |         |         | Revised       |         |         | % Change     |       |       |
|-------------------|-------------------|---------|---------|---------------|---------|---------|--------------|-------|-------|
|                   | CY25E             | CY26E   | CY27E   | CY25E         | CY26E   | CY27E   | CY25E        | CY26E | CY27E |
| Revenue           | 141,296           | 162,811 | 188,191 | 137,884       | 158,359 | 184,855 | (2.4)        | (2.7) | (1.8) |
| EBITDA            | 23,411            | 25,055  | 28,296  | 23,653        | 25,662  | 29,430  | 1.0          | 2.4   | 4.0   |
| EBITDA margin (%) | 16.6              | 15.4    | 15.0    | 17.2          | 16.2    | 15.9    | 58.6         | 81.6  | 88.4  |
| PAT               | 19,221            | 20,695  | 23,484  | 18,032        | 19,684  | 22,773  | (6.2)        | (4.9) | (3.0) |
| EPS (INR)         | 90.7              | 97.7    | 110.8   | 85.1          | 92.9    | 107.5   | (6.2)        | (4.9) | (3.0) |
| <b>TP (INR)</b>   | <b>5,860</b>      |         |         | <b>5,580</b>  |         |         | <b>(4.8)</b> |       |       |
| <b>Rating</b>     | <b>Accumulate</b> |         |         | <b>Reduce</b> |         |         |              |       |       |

Source: Elara Securities Estimate

## Coverage History



| Date        | Rating     | Target Price (INR) | Closing Price (INR) |
|-------------|------------|--------------------|---------------------|
| 5-May-2022  | Accumulate | 2,590              | 2,221               |
| 12-Aug-2022 | Accumulate | 2,980              | 2,721               |
| 16-Nov-2022 | Accumulate | 3,390              | 3,036               |
| 13-Feb-2023 | Accumulate | 3,615              | 3,080               |
| 5-May-2023  | Accumulate | 3,900              | 3,718               |
| 18-Aug-2023 | Reduce     | 4,300              | 4,280               |
| 15-May-2024 | Sell       | 7,200              | 8,084               |
| 9-Aug-2024  | Reduce     | 8,185              | 7,972               |
| 6-Nov-2024  | Reduce     | 7,170              | 7,164               |
| 13-Jan-2025 | Accumulate | 6,660              | 6,109               |
| 18-Feb-2025 | Accumulate | 5,860              | 5,142               |
| 12-May-2025 | Reduce     | 5,580              | 5,441               |

### Guide to Research Rating

|                       |                             |
|-----------------------|-----------------------------|
| <b>BUY (B)</b>        | Absolute Return >+20%       |
| <b>ACCUMULATE (A)</b> | Absolute Return +5% to +20% |
| <b>REDUCE (R)</b>     | Absolute Return -5% to +5%  |
| <b>SELL (S)</b>       | Absolute Return < -5%       |

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