



ABB

BSE SENSEX	S&P CNX	CMP: INR728	Neutral									
18,817	5,724		Year End	Net Sales (INR m)	PAT (INR m)	EPS (INR)	EPS Gr (%)	P/E (x)	P/BV (x)	RoE (%)	RoCE (%)	EV/Sales
Bloomberg Equity Shares (m)	ABB IN 211.9	12/10A	62,871	632	3.0	-82.2	-	-	2.6	3.1	-	-
52-Week Range (INR)	915/541	12/11A	73,703	1,845	8.7	191.9	83.6	6.1	7.4	8.1	2.1	53.4
1,6,12 Rel. Perf. (%)	-7/-18/0	12/12E	78,345	1,793	8.5	-2.8	86.0	5.8	6.9	7.5	1.9	46.8
M.Cap. (INR b)	154.3	12/13E	87,357	2,760	13.0	53.9	55.9	5.4	10.0	10.3	1.7	32.7
M.Cap. (USD b)	2.8											

- Operating performance below expectations:** ABB India's operational performance for 3QCY12 was significantly below expectations. Revenue grew 4% YoY to INR18b, 6% below our estimate of INR19b. EBITDA was flat YoY at INR664m (v/s our est of INR1.1b). Net profit declined 4% YoY to INR214m, below our estimate of INR543m. Results were impacted by forex loss of INR300m (forex loss would have been INR430m, but for a one-time gain of INR130m on account of change in accounting policy related to valuation of embedded derivatives).
- Margins remain under pressure:** There are headwinds to recovery in profitability, which has been impacted by cost overruns, particularly in Project businesses. Project margins remain volatile, also driven by slower execution due to delays at customers' end. Process Automation margins have been particularly impacted by cost overruns (EBIT loss of INR143m v/s loss of INR84m in 2QCY12). The Power Systems business has again reported losses at EBIT level after reporting profits in 1HFY13. On the positive side, margins in the Products businesses have expanded in 3QCY12, driven by ongoing cost reduction measures.
- Orders decline 33% YoY:** Order intake declined 33% YoY to INR16.8b, hit by lack of large orders. Last year, order intake included one large order worth INR8b from Isolux, excluding which base orders grew ~10% YoY. The management mentioned visible signs of improvement in ordering sentiment, driven by recent reformist measures by the government.
- Valuations rich; maintain Neutral:** Though recovery in margins is still slower than our expectation, there are signs of profitability improvement, as (1) ABB has largely exited RE works, and (2) the benefits of cost reduction measures have started to flow in. We have cut our earnings estimates by 25% for CY12 and CY13 to factor in delayed improvement in EBITDA margin and slower sales due to delays by customers. Valuations are rich; we maintain **Neutral**.

Y/E December	Quarterly Performance (INR Million)											
	CY11				CY12				CY11	CY12E	Estimates	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			2QCY12	Var %
Sales	17,960	17,125	17,435	21,999	17,903	18,838	18,086	24,207	74,742	79,034	19,190	-6%
Change (%)	21.7	18.4	24.8	6.2	(0.3)	10.0	3.7	10.0	17.5	5.7	10.1	
EBITDA	1,016	855	666	1,080	975	1,060	664	1,196	3,618	3,895	1,109	-40%
Change (%)	356.2	70.8	93.3	230.5	-4.0	24.0	-0.4	10.7	131.9	7.7	66.3	
As % of Sales	5.7	5.0	3.8	4.9	5.4	5.6	3.7	4.9	4.8	4.9	5.8	
Depreciation	144	264	263	124	223	231	240	300	795	995	260	-8%
Interest	40	67	71	129	54	77	117	72	307	320	75	56%
Other Income	45	65	38	14	19	14	10	34	162	77	25	-62%
PBT	877	589	371	840	716	766	316	858	2,677	2,656	799	-60%
Tax	282	202	149	199	240	250	102	271	832	863	256	
Effective Tax Rate (%)	32.1	34.3	40.2	23.7	33.5	32.6	32.4	31.6	31.1	32.5	32.0	
Reputed PAT	595	387	222	641	476	516	214	587	1,845	1,793	543	-61%
Adj. PAT	595	387	222	641	476	516	214	587	1,845	1,793	543	-61%
Change (%)	796.8	1.1	92.6	845.3	-20.0	33.2	-3.6	-8.5	191.8	-2.8	145.1	
Order Intake	16,951	17,918	24,926	22,093	16,320	20,450	16,800	20,515	81,888	74,085	28,665	
Order Book	83,291	84,150	91,513	91,288	90,280	91,892	90,606	88,220	91,288	88,220	101,200	
BTB (x)	1.2	1.2	1.2	1.2	1.2	1.2	1.5	1.1	1.2	1.2	1.3	

E: MOSL Estimates

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Operating performance below expectations

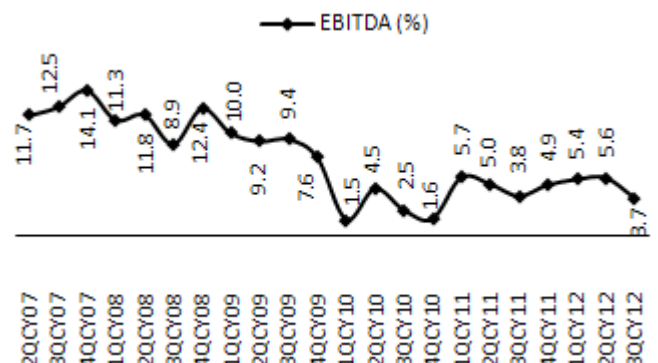
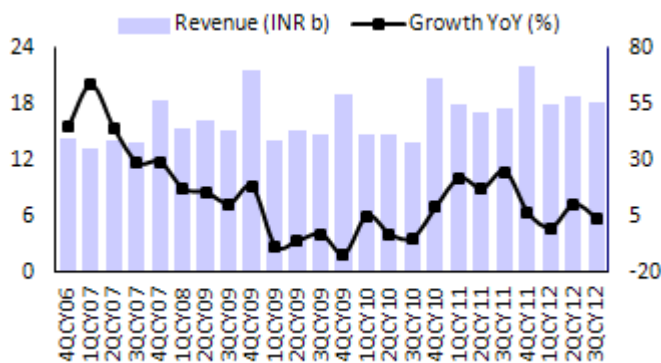
ABB India's operational performance for 3QCY12 was significantly below expectations. Revenue grew 4% YoY to INR18b, 6% below our estimate of INR19b. EBITDA was flat YoY at INR664m, much below our estimate of INR1.1b. Net profit declined 4% YoY to INR214m, much below our estimate of INR543m. Results were impacted by forex loss of INR300m (forex loss would have been INR430m, but for a one-time gain of INR130m on account of change in accounting policy related to valuation of embedded derivatives). ABB's performance was also impacted by adverse currency movement. Imports constitute ~39% of material consumption (75% from parent company), while exports are just 15% of revenue.

Margins remain under pressure

There are headwinds to recovery in profitability, which has been impacted by cost overruns, particularly in Project businesses. Project margins remain volatile, also driven by slower execution due to delays at customers' end. Process Automation margins have been particularly impacted by cost overruns (EBIT loss of INR143m v/s loss of INR84m in 2QCY12). The Power Systems business has again reported losses at EBIT level after reporting profits in 1HFY13. On the positive side, margins in the Products businesses have expanded in 3QCY12, driven by ongoing cost reduction measures.

Revenue growth impacted by customer delays in Project business

EBITDA margin remains volatile



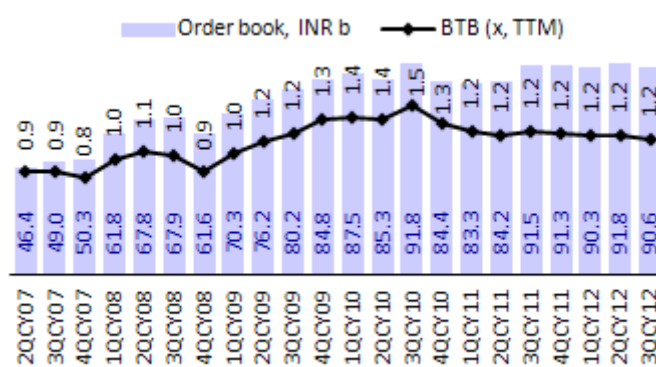
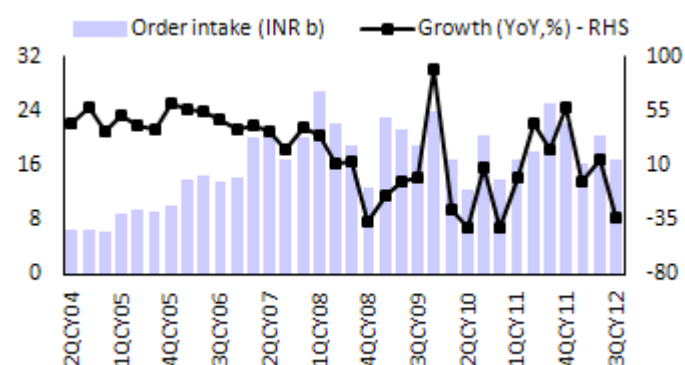
Source: Company, MOSL

Orders decline 33% YoY

Order intake declined 33% YoY to INR16.8b, hit by lack of large orders. Last year, order intake included one large order worth INR8b from Isolux, excluding which base orders grew ~10% YoY. The management mentioned visible signs of improvement in ordering sentiment, driven by recent reformist measures by the government.

Base orders up 10% YoY; large orders missing

BTB of 1.2x TTM revenue; maintained in range



Source: Company, MOSL

Segmental Analysis (INR m)

	1QCY11	2QCY11	3QCY11	4QCY11	1QCY12	2QCY12	3QCY12
Discrete Automation and Motion							
Revenue	4,174	4,211	4,344	5,271	4,141	4,506	4,171
Growth YoY (%)	5.4	15.4	26.1	8.0	-0.8	7.0	-4.0
EBIT	509	320	459	779	432	576	303
EBIT Margin (%)	12.2	7.6	10.6	14.8	10.4	12.8	7.3
Low Voltage Products							
Revenue	1,297	1,275	1,391	1,449	1,447	1,505	1,539
Growth YoY (%)	33.3	23.3	33.8	0.7	11.5	18.1	10.6
EBIT	104	125	29	83	82	73	126
EBIT Margin, %	8.0	9.8	2.1	5.7	5.7	4.9	8.2
Process Automation							
Revenue	3,298	2,937	2,781	4,255	3,039	3,294	3,136
Growth YoY (%)	15.1	30.0	27.5	-7.1	-7.9	12.1	12.8
EBIT	217	150	64	-54	83	-84	-143
EBIT Margin (%)	6.6	5.1	2.3	(1.3)	2.7	(2.5)	(4.6)
Power Products							
Revenue	4,400	4,688	4,976	5,952	4,580	5,278	5,150
Growth YoY (%)	1.9	5.6	24.6	10.1	4.1	12.6	3.5
EBIT	214	220	164	399	107	293	436
EBIT Margin (%)	4.9	4.7	3.3	6.7	2.3	5.5	8.5
Power Systems							
Revenue	5,723	5,077	5,452	7,314	5,689	5,688	5,055
Growth YoY (%)	49.6	21.7	39.1	15.2	-0.6	12.0	-7.3
EBIT	17	-35	23	-14	282	285	-83
EBIT Margin (%)	0.3	(0.7)	0.4	-0.2	5.0	5.0	(1.6)

Source: Company/MOSL

Valuations rich; maintain Neutral

Though recovery in margins is still slower than our expectation, there are signs of profitability improvement, as (1) ABB has largely exited RE works, and (2) the benefits of cost reduction measures have started to flow in. We have cut our earnings estimates by 25% for CY12 and CY13 to factor in delayed improvement in EBITDA margin and slower sales due to delays by customers. Valuations are rich; we maintain **Neutral**.

ABB: an investment profile

Company description

ABB is a worldwide leader in power transmission and distribution and process automation space. ABB India is 75% subsidiary of ABB with focus on power T&D and automation space. Besides power transmission and distribution, automation products and process automation are the larger areas of operations. It mainly caters to the industries like oil and gas, metals and minerals, power etc. Power T&D and automation contribute 60% and 40% respectively to revenues of ABB. Power T&D includes products and project services like switchgears, transformers, motors, generators, balance of plant activities etc. Projects and products proportion in the revenues is about 45% and 55% respectively, whereas exports contribute ~15% to the total revenues.

Key investment arguments

- Technology leadership due to strong parentage. ABB is a worldwide leader in power transmission and distribution and process automation space. The company is best placed to benefit from revival of industrial capex cycle.
- Profitability is likely to show improvement in CY13 on the back of strong cost reduction measures which the company has taken.

- Current order backlog at INR90b, book to bill ratio of 1.2x TTM revenues provides reasonable visibility for CY12.

Key investment risks

- Continued pressure on profitability across business segments. ABB India performance continue to be impacted by cost overruns in the project businesses, increased competitive intensity, execution headwinds, pricing pressures, etc.
- Loss of market share to Indian and foreign players as ABB's business model is largely based on import from parent while competitors have domestic manufacturing capacity

Valuation and view

- We believe although recovery in margins are still slower than expectation, signs of profitability improvement are visible now as ABB has largely exited RE works and the benefits of cost reduction measures have started to flow-in. We have cut our earnings estimate by 25% for CY12/13 to factor in delayed improvement in EBITDA margins and slowing sales. Valuations are rich, we remain Neutral.

Sector view

- We remain **Neutral** on the sector.

Comparative valuations

		ABB	Siemens	Crompton
P/E (x)	FY13E	86.0	41.6	36.8
	FY14E	55.9	30.5	13.5
P/BV (x)	FY13E	5.8	5.9	2.1
	FY14E	5.4	5.5	1.9
EV/Sales (x)	FY13E	1.9	1.8	0.7
	FY14E	1.7	1.6	0.6
EV/EBITDA (x)	FY13E	46.8	23.0	13.6
	FY14E	32.7	16.7	8.2

* For ABB, FY13 is CY12 and FY14 is CY13

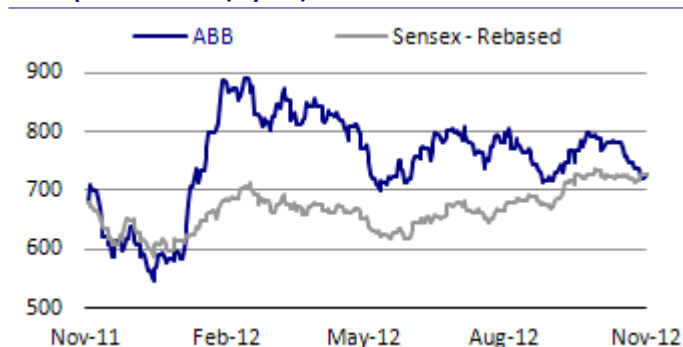
Shareholding Pattern (%)

	Sep-12	Jun-12	Sep-11
Promoter	75.0	75.0	75.0
Domestic Inst	13.0	12.9	12.8
Foreign	3.5	3.4	3.3
Others	8.6	8.7	8.9

EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
CY12	8.5	17.1	-50.3
CY13	13.0	28.0	-53.6

Stock performance (1 year)



Financials and Valuation

Income Statement		(INR Million)			
Y/E December	2010	2011	2012E	2013E	
Net Sales	62,871	73,703	78,345	87,357	
Change (%)	0.8	17.2	6.3	11.5	
Raw Materials	26,166	28,412	28,988	31,885	
Staff Cost	4,901	5,868	7,042	7,746	
Other Mfg. Expenses	22,455	27,189	28,988	32,322	
Selling Expenses	7,309	7,811	8,555	9,347	
Admin. & Other Exp.	1,202	1,591	1,567	1,485	
EBITDA	838	2,831	3,206	4,571	
% of Net Sales	1.3	3.8	4.1	5.2	
Depreciation	517	795	995	1,092	
Interest	174	307	320	300	
Other Income	855	949	765	880	
PBT	1,002	2,677	2,656	4,059	
Tax	370	832	863	1,299	
Rate (%)	36.9	31.1	32.5	32.0	
PAT	632	1,845	1,793	2,760	
Adjusted PAT	632	1,845	1,793	2,760	
Change (%)	-82.2	191.9	-2.8	53.9	

Balance Sheet		(INR Million)			
Y/E December	2010	2011	2012E	2013E	
Share Capital	424	424	424	424	
Reserves	23,813	24,921	26,197	28,320	
Net Worth	24,237	25,345	26,621	28,744	
Net Deferred Tax Liability	-46	-224	0	0	
Capital Employed	24,191	25,121	26,621	28,744	
Gross Fixed Assets	9,977	14,618	15,988	17,623	
Less: Depreciation	2,318	2,935	3,930	4,657	
Net Fixed Assets	7,660	11,683	12,058	12,967	
Capital WIP	577	839	700	700	
Investments	168	507	507	507	
Curr. Assets	49,262	49,600	53,471	59,419	
Inventory	6,979	9,255	8,156	9,095	
Debtors	29,260	30,825	33,270	37,097	
Cash & Bank Balance	5,871	2,644	3,888	4,133	
Loans & Advances	7,153	6,876	8,156	9,095	
Current Liab. & Prov.	33,476	37,509	40,115	44,849	
Creditors	31,175	35,178	39,495	44,037	
Other Liabilities	454	0	0	0	
Provisions	1,846	2,331	621	812	
Net Current Assets	15,786	12,092	13,356	14,570	
Application of Funds	24,191	25,121	26,621	28,744	

E: MOSL Estimates

Ratios		2010	2011	2012E	2013E
Y/E December					
Basic (INR)					
EPS		3.0	8.7	8.5	13.0
Growth		-82.2	191.9	-2.8	53.9
Cash EPS		5.4	12.5	13.2	18.2
Book Value		114.4	119.6	125.6	135.6
DPS		2.3	3.5	2.4	3.0
Payout (incl. Div.Tax)		7,844.4	4,012.7	25.0	20.0
Valuation (x)					
P/E			83.6	86.0	55.9
Cash P/E			58.4	55.3	40.0
EV/EBITDA			53.4	46.8	32.7
EV/Sales			2.1	1.9	1.7
Price/Book Value			6.1	5.8	5.4
Dividend Yield (%)			0.5	0.3	0.4
Profitability Ratios (%)					
RoE		2.6	7.4	6.9	10.0
RoCE		3.1	8.1	7.5	10.3
Turnover Ratios					
Debtors (Days)		170	153	155	155
Inventory (Days)		41	46	38	38
Creditors. (Days)		181	174	184	184
Asset Turnover (x)		2.6	2.9	2.9	3.0
Leverage Ratio					
Debt/Equity (x)		0.0	0.0	0.0	0.0

Cash Flow Statement		(INR Million)			
Y/E December	2010	2011	2012E	2013E	
PBT before EO Items	1,002	2,677	2,656	4,059	
Add : Depreciation	517	795	995	1,092	
Interest	174	307	320	300	
Less : Direct taxes paid	370	832	863	1,299	
(Inc)/Dec in WC	1,017	466	-19	-970	
CF from operations	2,340	3,414	3,088	3,183	
(Inc)/Dec in FA	-858	-5,081	-1,231	-2,001	
(Pur)/Sale of Investments	1	-339	0	0	
CF from investments	-857	-5,420	-1,231	-2,001	
(Inc)/Dec in Net Worth	-183	-175	224	0	
Less : Interest Paid	174	307	320	300	
Dividend Paid	496	740	518	637	
CF from Fin. Activity	-852	-1,222	-614	-937	
Inc/Dec of Cash	631	-3,228	1,244	245	
Add: Beginning Balance	5,241	5,871	2,644	3,888	
Closing Balance	5,873	2,643	3,888	4,133	

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