

ABB India

Performance Highlights

Quarterly Highlights

(₹ cr)	3QCY12	3QCY11	% chg (yoy)	2QCY12	% chg (qoq)
Revenue	1,809	1,744	3.7	1,884	(4.0)
EBITDA	66.4	66.6	(0.4)	106.0	(37.4)
EBITDA margin (%)	3.7	3.8	(15)	5.6	(196)
Reported PAT	21.4	22.2	(3.5)	51.6	(58.6)

Source: Company, Angel Research

For 3QCY2012, ABB India (ABB)'s top-line and bottom-line performance was below our expectations. The company reported a subdued revenue growth of 3.7% yoy to ₹1,809cr and 3.5% yoy decline in net profit to ₹21cr. Order intake during the quarter declined by 32.6% yoy to ₹1,679cr due to delays in finalization of large orders. Order backlog stands at ₹9,062cr for 3QCY2012, down 1% yoy, implying order book coverage of 1.2x. The order intake is likely to improve going forward as the management expects to win a large order soon.

Margins below expectation: The EBITDA margin for the quarter came in flat yoy at 3.7%. The company's margins were below our expectations due to EBIT losses of ₹8cr and ₹14cr in power systems and process automation segment respectively. However, power products and low voltage products posted higher margins yoy at 8.5% and 8.2% respectively. The company benefited to the tune of ₹13cr at the PBT level from a change in accounting policy regarding embedded derivatives. However, ABB incurred a forex loss of ₹30cr in the quarter against a gain of ₹8.5cr in the corresponding quarter of the previous year. Consequently, the profit declined by 3.5% yoy to ₹21cr.

Outlook and valuation: With decent order flows expected in power products and power system segments, along with recovery in profitability due to supply chain initiatives and exit from rural electrification projects coupled with a debt free balance sheet, we expect ABB's fundamentals to steadily improve going forward. However, with the share trading at 33x PE on our CY2013E EPS estimates, we believe the share remains overvalued. Hence, **we maintain our Sell recommendation on the stock with a target price of ₹573.**

Key financials

Y/E December (₹ cr)	CY2010	CY2011	CY2012E	CY2013E
Net sales	6,287	7,370	7,796	9,907
% chg	0.8	17.2	5.8	27.1
Net profit	63	185	194	467
% chg	(82.2)	191.8	5.3	140.3
EBITDA (%)	1.3	3.8	4.8	7.8
EPS (₹)	3.0	8.7	9.2	22.0
P/E (x)	243.6	83.5	79.3	33.0
P/BV (x)	6.4	6.1	5.8	5.1
RoE (%)	2.6	7.5	7.5	16.4
RoCE (%)	1.3	8.3	10.7	23.3
EV/Sales (x)	2.4	2.0	1.9	1.5
EV/EBITDA (x)	176.7	53.3	40.4	19.6

Source: Company, Angel Research

SELL

CMP	₹727
Target Price	₹573

Investment Period	12 Months
-------------------	-----------

Stock Info

Sector	Capital Goods
Market Cap (₹ cr)	15,412
Net Debt (₹ cr)	(315)
Beta	1.4
52 Week High / Low	915/541
Avg. Daily Volume	11,905
Face Value (₹)	2
BSE Sensex	18,619
Nifty	5,667
Reuters Code	Abb.BO
Bloomberg Code	Abb@IN

Shareholding Pattern (%)

Promoters	75.0
MF / Banks / Indian Fls	13.0
FII / NRIs / OCBs	3.5
Indian Public / Others	8.6

Abs. (%)	3m	1yr	3yr
Sensex	5.6	8.3	10.5
ABB	(7.8)	4.1	(4.6)

Amit Patil

022-39357800 Ext: 6839

amit.patil@angelbroking.com

Exhibit 1: Quarterly performance

	3QCY2012	3QCY2011	% yoy	2QCY2012	% qoq	9MCY12	9MCY11	% yoy
Net Sales	1,786	1,726	3.5	1,858	(3.9)	5,418	5,201	1,786
Other operating income	23	17		25		65	48	23
Total income	1,809	1,744	3.7	1,884	(4.0)	5,483	5,249	1,809
Stock adjustments	(28)	(9)		(7)		(43)	(105)	(28)
Raw Material	1228	1195	2.8	1285	(4.5)	3,729	3,728	1228
(% of total income)	69.9	72.0		71.1		67.2	69.0	69.9
Employee Cost	150	160	(6.6)	175	(14.7)	474	432	150
(% of total income)	8.3	9.2		9.3		8.6	8.2	8.3
Other Expenses	328	262	25.4	262	25.0	857	723	328
(% of total income)	18.1	15.0		13.9		23.0	19.4	18.1
Total Expenditure	1,742	1,677	3.9	1,778	(2.0)	5,016	4,778	1,742
EBITDA	66	67	(0.4)	106	(37.4)	466	471	66
(EBITDA %)	3.7	3.8		5.6		8.5	9.0	3.7
Interest	12	7	64.9	8	53.2	25	18	12
Depreciation	24	26	(8.5)	23	3.9	70	67	24
Other Income	1	4		1		4	15	1
PBT	32	37	(14.7)	77	(58.8)	376	401	32
PBT (%)	1.7	2.1		4.1		6.9	7.6	1.7
Total Tax	10	15	(31.4)	25	(59.1)	59	63	10
(% of PBT)	32.3	40.2		32.6		15.7	15.8	32.3
Reported PAT	21	22	(3.5)	52	(58.6)	317	338	21
PAT Margins(%)	1.2	1.3		2.7		5.8	6.4	1.2
EPS (₹)	1.0	1.0	(3.5)	2.4	(58.6)	5.7	5.7	1.0

Source: Company, Angel Research

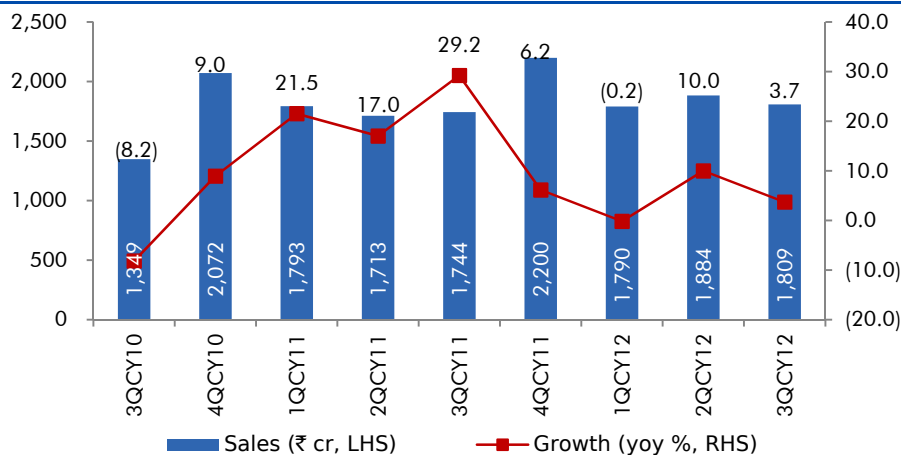
Exhibit 2: Actual vs estimates

(₹ cr)	Actual	Estimates	Var (%)
Revenue	1,786	2,015	(11.4)
EBITDA	66	125	(46.9)
PAT	21	64	(66.4)

Source: Company, Angel Research

Top-line grew by 3.7%: For 3QCY2012, the company reported a subdued revenue growth of 3.7% yoy to ₹1,809cr mainly on account of a 7.4% yoy decline in power systems and 4.0% yoy decline in discrete automation. However, process automation and low voltage products registered healthy growth of 12.8% and 10.7% respectively.

Exhibit 3: Subdued top-line growth

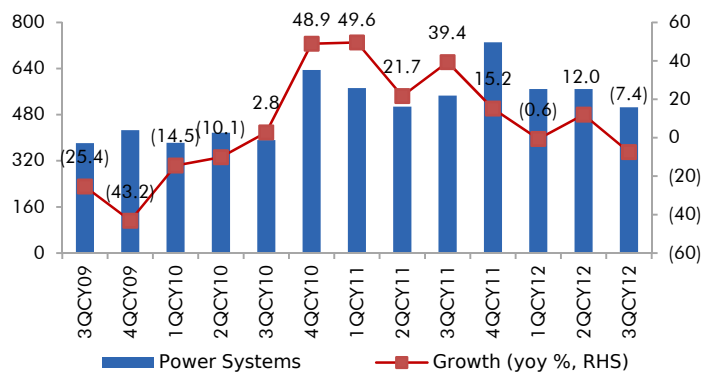


Source: Company, Angel Research

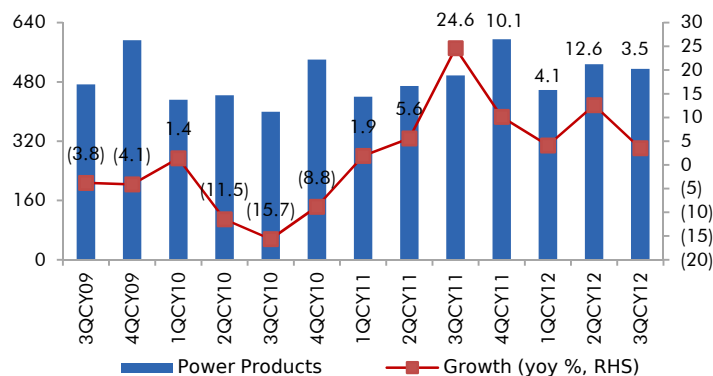
Exhibit 4: Segment-wise performance

Y/E Dec. (₹ cr)	3QCY12	3QCY11	%chg (yoy)	2QCY12	%chg (qoq)	9M CY12	9M CY11	%chg (yoy)
Revenue								
Power Systems	506	546	(7.4)	569	(11.1)	1,643	1,626	1.0
Power Products	515	498	3.5	528	(2.4)	1,501	1,406	6.7
Process Automation	314	278	12.8	329	(4.8)	947	902	5.0
Discrete Automation	417	434	(4.0)	451	(7.4)	1,282	1,273	0.7
Low Voltage Products	154	139	10.7	151	2.3	449	396	13.3
Total	1,905	1,895	0.5	2,027	(6.0)	5,822	5,603	3.9
EBIT								
Power Systems	(8)	2	(460.0)	29	(129.2)	48	1	9,148.7
Power Products	44	16	164.9	29	48.8	84	60	39.5
Process Automation	(14)	6	(323.2)	(8)	70.6	(14)	43	(133.4)
Discrete Automation	30	46	(34.0)	58	(47.4)	131	129	1.8
Low Voltage Products	13	3	332.4	7	71.4	28	26	8
Total	64	74	(13.7)	114	(44.2)	277	258	7.2
EBIT Margin (%)								
Power Systems	(1.6)	0.4		5.0		2.94	0.0	
Power Products	8.5	3.3		5.5		5.6	4.3	
Process Automation	(4.6)	2.3		(2.5)		(1.5)	4.8	
Discrete Automation	7.3	10.6		12.8		10.2	10.1	
Low Voltage Products	8.2	2.1		4.9		6.3	6.5	

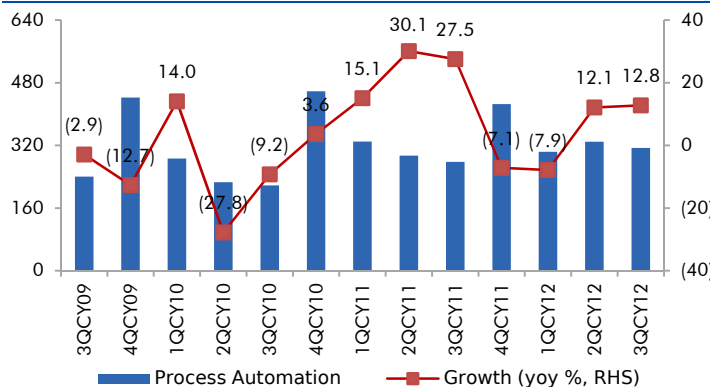
Source: Company, Angel Research

Exhibit 5: Power systems: Revenue and growth


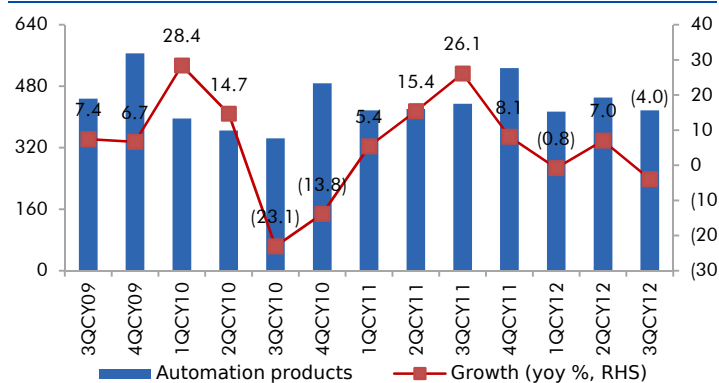
Source: Company, Angel Research

Exhibit 6: Power product: Revenue and growth


Source: Company, Angel Research

Exhibit 7: Process automation: Revenue and growth


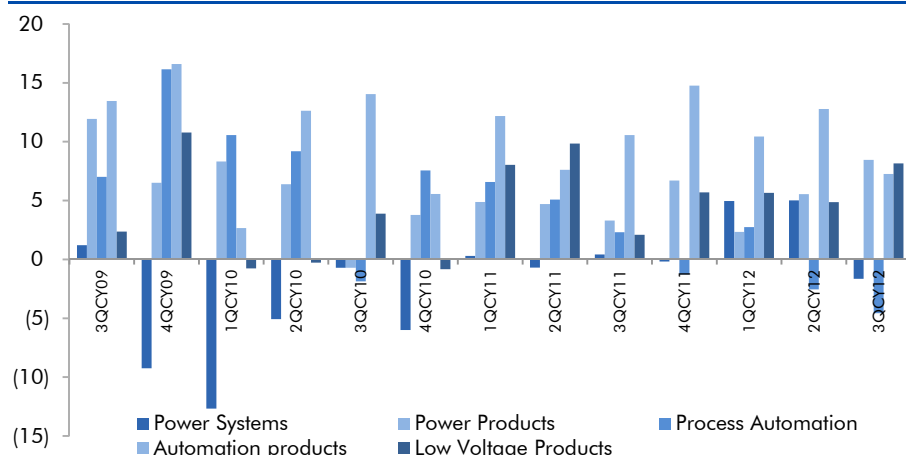
Source: Company, Angel Research

Exhibit 8: Discrete Automation: Revenue and growth


Source: Company, Angel Research

Margins below expectation: The EBITDA margin for the quarter came in flat yoy at 3.7%. The company's margins were below our expectations due to EBIT losses of ₹8cr and ₹14cr in power systems and process automation segments respectively. However, power products and low voltage products posted higher margins yoy at 8.5% and 8.2% respectively. The company benefited to the tune of ₹13cr at PBT level from a change in accounting policy regarding embedded derivatives. However, ABB incurred a forex loss of ₹30cr in the quarter against a gain of ₹8.5cr in the corresponding quarter of the previous year. Consequently, the profit declined by 3.5% yoy to ₹21cr.

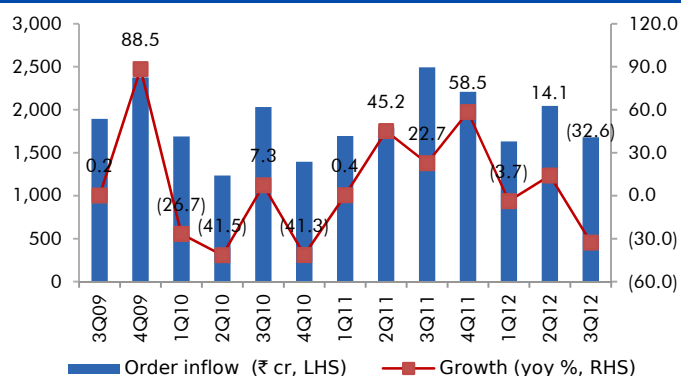
Exhibit 9: Segment-wise EBIT margins



Source: Company, Angel Research

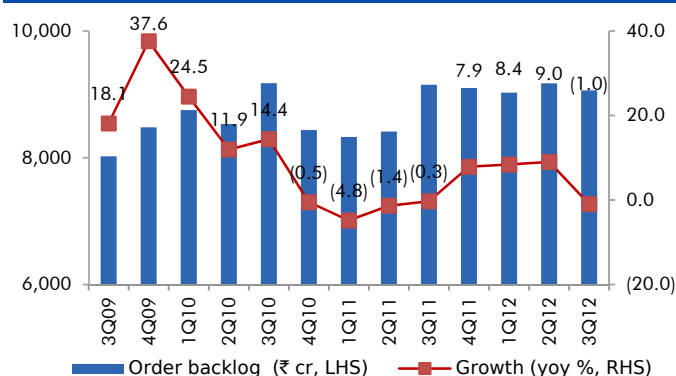
Order flow stable: Order intake during the quarter declined by 32.6% yoy to ₹1,679cr due to delays in finalization of large orders. The order intake is likely to improve as management expects to win a large order soon. Order backlog stands at ₹9,062cr for 3QCY2012, down 1% yoy, implying order book coverage of 1.2x.

Exhibit 10: Order inflow trend



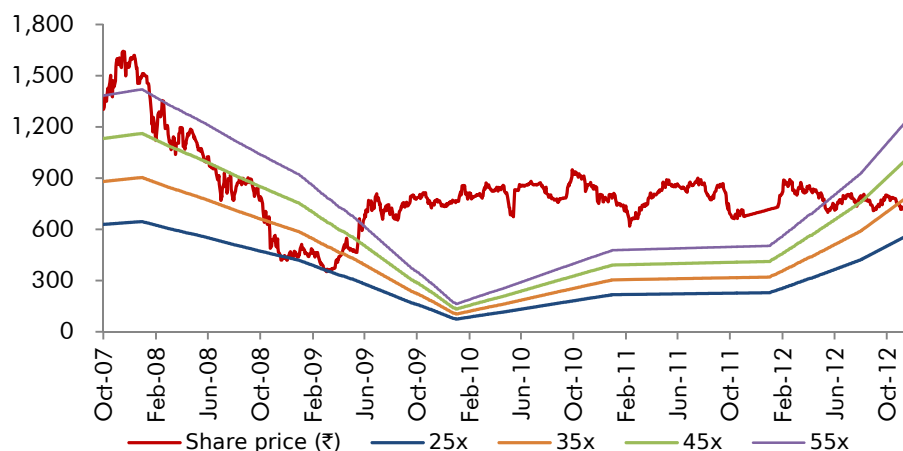
Source: Company, Angel Research

Exhibit 11: Order backlog trend



Source: Company, Angel Research

Outlook and valuation: With decent order flows expected in power products and power system segments along with recovery in profitability due to supply chain initiatives and exit from rural electrification projects coupled with a debt free balance sheet, we expect ABB's fundamentals to steadily improve going forward. However, with the share trading at 33x PE on our CY2013E EPS estimates, we believe the share remains overvalued. Hence, we maintain our Sell recommendation on the stock with a target price of ₹573.

Exhibit 12: One Year Forward P/E Band


Source: Company, Angel Research

Exhibit 13: Peer Comparison

Company	Reco.	CMP	Tgt. price	Upside	P/BV(x)		P/E(x)		FY2012-14E		RoE (%)	
					FY13E	FY14E	FY13E	FY14E	EPS CAGR	FY13E	FY14E	
ABB*	Sell	727	573	(21.2)	5.8	5.1	79.3	33.0	59.1	7.5	16.4	
BHEL	Neutral	232	-	-	2.8	2.4	9.4	10.6	(13.2)	33.5	24.5	
BGR Energy	Neutral	264	-	-	1.5	1.4	10.6	9.5	(5.3)	31.1	27.1	
Crompton Greaves	Buy	112	145	30.0	1.9	1.7	28.0	14.4	15.5	6.9	12.6	
Jyoti Structures	Buy	44	53	20.5	0.5	0.4	4.7	3.7	2.2	10.9	12.5	
KEC International	Buy	62	73	17.8	1.3	1.1	8.7	6.8	5.8	22.0	23.2	
Thermax	Neutral	583	-	-	3.7	3.2	20.7	18.6	(4.1)	19.2	18.5	

Source: Company, Angel Research. Note*: December year end

Company Background

ABB India (ABB) is the Indian subsidiary of Switzerland-based ABB Group, which is one of the world's leading power and automation engineering companies. The group provides solutions for energy-efficient generation, power transmission and distribution (T&D) and process automation. The power-related segment is the company's major revenue contributor, accounting for ~53% of its total CY2010 revenue, while 40% is contributed by the automation segment.

Profit and loss statement

Y/E December (₹ cr)	CY2009	CY2010	CY2011	CY2012E	CY2013E
Operating income	6,237	6,287	7,370	7,796	9,907
% chg	(8.8)	0.8	17.2	5.8	27.1
Total Expenditure	5,710	6,203	7,087	7,422	9,134
Raw Materials	1,823	2,577	2,717	2,877	3,487
Mfg costs	2,695	2,225	2,761	3,002	3,765
Personnel Costs	389	490	587	655	793
Other Costs	803	911	1,022	889	1,090
EBITDA	527	84	283	374	773
% chg	(31.5)	(84.1)	238.0	46.9	80.0
(% of Net Sales)	8.5	1.3	3.8	4.8	7.8
Depreciation & Amortization	49	52	80	98	111
EBIT	479	32	204	276	661
% chg	(34.7)	(93.3)	534.1	35.7	139.5
(% of Net Sales)	7.7	0.5	2.8	3.5	6.7
Interest & other Charges	24	17	31	23	20
Other Income	73	86	95	35	50
(% of PBT)	13.8	85.3	35.4	12.2	7.2
Recurring PBT	527	100	268	288	692
% chg	(36.7)	(81.0)	167.1	7.5	140.3
Extraordinary Expense/(Inc.)	0	0	0	0	0
PBT (reported)	527	100	268	288	692
Tax	173	37	83	94	225
(% of PBT)	32.8	36.9	31.1	32.5	32.5
PAT (reported)	355	63	185	194	467
Add: Share of earnings of asso.	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-
Prior period items	-	-	-	-	-
PAT after MI (reported)	355	63	185	194	467
ADJ. PAT	355	63	185	194	467
% chg	(35.2)	(82.2)	191.8	5.3	140.3
(% of Net Sales)	5.7	1.0	2.5	2.5	4.7
Basic EPS (₹)	16.7	3.0	8.7	9.2	22.0
Fully Diluted EPS (₹)	16.7	3.0	8.7	9.2	22.0
% chg	(35.2)	(82.2)	191.8	5.3	140.3

Balance sheet

Y/E December (₹ cr)	CY2009	CY2010	CY2011	CY2012E	CY2013E
SOURCES OF FUNDS					
Equity Share Capital	42	42	42	42	42
Preference Capital	0	0	0	0	0
Reserves & Surplus	2,381	2,381	2,492	2,636	3,004
Shareholders' Funds	2,424	2,424	2,535	2,679	3,046
Minority Interest	0	0	0	0	0
Total Loans	0	0	0	0	0
Deferred Tax Liability	0	0	0	0	0
Total Liabilities	2,424	2,424	2,535	2,679	3,046
APPLICATION OF FUNDS					
Gross Block	879	998	1,462	1,662	1,887
Less: Acc. Depreciation	206	232	294	392	503
Net Block	673	766	1,168	1,270	1,384
Capital Work-in-Progress	116	58	84	50	50
Goodwill	-	-	-	-	-
Investments	17	17	51	51	51
Deferred Tax Asset	0	5	22	22	22
Current Assets	4,749	4,926	4,960	5,411	6,471
Cash	524	587	264	223	187
Loans & Advances	318	354	367	304	466
Inventories	729	698	926	932	1,068
Debtors	2,858	2,926	3,083	3,524	4,207
Others	320	361	321	427	543
Current liabilities	3,132	3,348	3,751	4,125	4,931
Net Current Assets	1,617	1,579	1,209	1,286	1,540
Total Assets	2,424	2,424	2,535	2,679	3,046

Cash flow statement

Y/E December (₹ cr)	CY2009	CY2010	CY2011	CY2012E	CY2013E
Profit before tax	527	100	268	288	692
Depreciation	49	52	80	98	111
(Inc)/Dec in Working Capital	(63)	102	47	(118)	(290)
Less: Other income	(73)	(86)	(95)	(35)	(50)
Direct taxes paid	(173)	(37)	(83)	(94)	(225)
Cash Flow from Operations	268	131	216	140	238
(Inc.)/Dec.in Fixed Assets	(163)	(104)	(513)	(166)	(225)
(Inc.)/Dec. in Investments	44	0.1	(33.9)	0.0	0.0
Other income	73	86	95	35	50
Cash Flow from Investing	(46)	(19)	(452)	(131)	(175)
Issue of Equity	-	-	-	-	-
Inc./{Dec.) in loans	(0)	0	0	0	0
Dividend Paid (Incl. Tax)	(50)	(50)	(74)	(50)	(99)
Others	4	0.3	(12)		
Cash Flow from Financing	(50)	(50)	(74)	(50)	(99)
Inc./{Dec.) in Cash	176	63	(323)	(41)	(36)
Opening Cash balances	348	524	587	264	223
Closing Cash balances	524	587	264	223	187

Key ratios

Y/E December	CY2009	CY2010	CY2011	CY2012E	CY2013E
Valuation Ratio (x)					
P/E (on FDEPS)	43.4	243.6	83.5	79.3	33.0
P/CEPS	38.2	134.1	58.3	52.7	26.6
P/BV	6.4	6.4	6.1	5.8	5.1
Dividend yield (%)	0.3	0.3	0.4	0.3	0.6
EV/Sales	2.4	2.4	2.0	1.9	1.5
EV/EBITDA	28.2	176.7	53.3	40.4	19.6
EV / Total Assets	6.2	6.1	6.0	5.7	5.0
OB/Sales	1.4	1.3	1.4	1.5	1.2
Per Share Data (₹)					
EPS (Basic)	16.7	3.0	8.7	9.2	22.0
EPS (fully diluted)	16.7	3.0	8.7	9.2	22.0
Cash EPS	19.0	5.4	12.5	13.8	27.3
DPS	2.0	2.0	3.0	2.0	4.0
Book Value	113.7	114.4	119.6	126.4	143.7
DuPont Analysis (%)					
EBIT margin	7.7	0.5	2.8	3.5	6.7
Tax retention ratio (%)	67.2	63.1	68.9	67.5	67.5
Asset turnover (x)	3.5	3.4	3.7	3.4	3.8
RoIC (Pre-tax)	26.6	1.7	10.1	11.9	25.4
RoIC (Post-tax)	17.9	1.1	7.0	8.1	17.1
Cost of Debt (Post Tax)	-	-	21.1	0.0	0.0
Leverage (x)	(0.2)	(0.2)	(0.2)	(0.1)	(0.1)
Operating ROE	14.1	0.8	9.6	7.1	15.6
Returns (%)					
RoCE (Pre-tax)	21.2	1.3	8.3	10.7	23.3
Angel RoIC (Pre-tax)	28.7	1.8	10.5	12.3	25.9
RoE	15.7	2.6	7.5	7.5	16.4
Turnover ratios (x)					
Asset Turnover (Gross Block) (X)	7.6	6.7	6.0	5.0	5.6
Inventory / Sales (days)	40	41	40	43	37
Receivables (days)	171	168	149	155	142
Payables (days)	197	181	172	181	154
WC cycle (ex-cash) (days)	62	61	48	47	44
Solvency ratios (x)					
Net debt to Equity	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)
Net debt to EBITDA	(1.0)	(7.2)	(1.1)	(0.7)	(0.3)
Interest Coverage	19.9	1.8	6.6	11.8	33.4

Research Team Tel: 022 – 3935 7600

E-mail: research@angelbroking.com

Website: www.angelbroking.com

DISCLAIMER

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Angel Broking Limited, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Angel Broking Limited and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement

	ABB India
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

Ratings (Returns):	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
---------------------------	------------------------------------	---	--------------------