

FIRST GLOBAL

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India Research



Sector: Capital Goods

What Happened Last Quarter

ABB Limited (ABB.IN/ABB.BO)

Market perform with Outperform Bias

(CMP: Rs. 782.5, Mkt. Cap: Rs.165.8 bn, \$ 3.6 bn (March 02, '10)

Relevant Index: CNX Nifty: 5017.0 (March 02, '10)

Incremental investment in high-end T&D equipments & pick up in industrial demand to drive momentum in order inflow in CY10...

Improvement in capacity utilisation & revival in industrial capex to partly offset pressure on margins...

Last report's recommendation: Market perform with Outperform Bias (MP: Rs. 784.6, Feb 09, '10)

Relevant Index: CNX Nifty: 4,792.7, (Feb 09, '10)

Relative performance since last rating change (Jan 22, '10): CNX Nifty: Down 0.4%, ABB: Down 3.1%

March 03, 2010

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IMPORTANT DISCLOSURES CAN BE FOUND AT THE END OF THIS REPORT



Price and Rating History Chart

Ratings Key

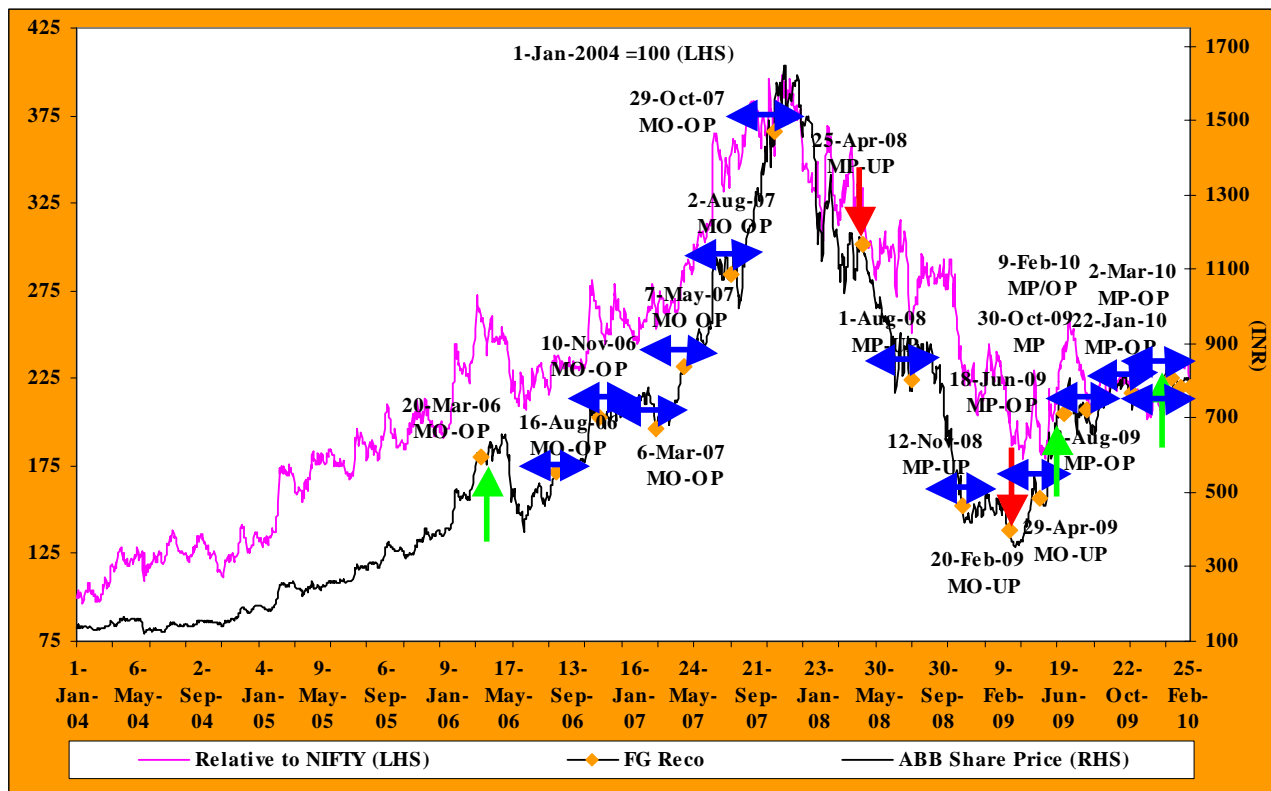
Positive Ratings	B = Buy	BD = Buy at Declines	OP = Outperform
	S-OP = Sector Outperform	M-OP = Market Outperform	MO-OP = Moderate Outperform
Neutral Ratings	H = Hold	MP = Market Perform	SP = Sector Perform
Negative Ratings	S = Sell	SS = Sell into Strength	UP = Underperform
	A = Avoid	MO-UP = Moderate Underperform	S-UP = Sector Underperform

ST: Short Term

MT: Medium Term

LT: Long Term

ABB Limited (ABB.IN/ABB.BO)



↑ Represents an Upgrade

↓ Represents a Downgrade

↔ Represents Reiteration of Existing Rating

Details of First Global's Rating System given at the end of the report



Financial Snapshot

Key Financials

(YE Dec.31) (Rs. mn)	CY 07	CY 08	CY 09	CY 10E	CY 11E
Total Revenues	59,303	68,370	62,372	72,127	83,224
<i>Revenue Growth (Y-o-Y)</i>	38.8%	15.3%	-8.8%	15.6%	15.4%
EBIDTA	7,295	7,742	5,287	7,429	9,155
<i>EBIDTA Growth (Y-o-Y)</i>	53.0%	6.1%	-31.7%	40.5%	23.2%
EBIT	6,971	7,375	4,802	6,869	8,546
<i>EBIT Growth (Y-o-Y)</i>	54.8%	5.8%	-34.9%	43.0%	24.4%
Net Profit	4,917	5,474	3,546	5,003	6,271
<i>Net Profit Growth (Y-o-Y)</i>	44.5%	11.3%	-35.2%	41.1%	25.3%
Net Profit Excl. extra-ordinaries	4,917	5,474	3,546	5,003	6,271
<i>Net Profit Growth Excl. extra-ordinaries (Y-o-Y)</i>	44.5%	11.3%	-35.2%	41.1%	25.3%
Shareholders Equity	16,263	21,190	24,253	28,724	34,463
Number of Diluted shares (mn)	212	212	212	212	212

Key Operating Ratios

(YE Dec.31)	CY 07	CY 08	CY 09E	CY 10E	CY 11E
Diluted EPS Excl. extra-ordinaries (Rs.)	23.2	25.8	16.7	23.6	29.6
<i>EPS Growth (Y-o-Y)</i>	44.5%	11.3%	-35.2%	41.1%	25.3%
CEPS Excl. extra-ordinaries (Rs.)	24.7	27.6	19.0	26.3	32.5
EBITDA (%)	12.3%	11.3%	8.5%	10.3%	11.0%
EBIT (%)	11.8%	10.8%	7.7%	9.5%	10.3%
NPM (%)	8.3%	8.0%	5.7%	6.9%	7.5%
NPM (Excl. Extra-Ordinaries) (%)	8.3%	8.0%	5.7%	6.9%	7.5%
Tax/PBT(%)	35.0%	34.3%	32.8%	34.3%	34.3%
RoE(%)	35.2%	29.5%	15.7%	19.0%	19.9%
RoCE(%)	35.4%	30.5%	16.4%	19.2%	19.9%
Return on Operating Assets (%)	73.3%	45.3%	21.5%	27.3%	30.2%
Book Value Per share (Rs.)	76.1	99.3	113.8	134.9	162.0
Debt/Equity(x)	0.0	0.0	0.0	0.0	0.0
Dividend Payout (%)	9.5%	8.5%	12.0%	9.3%	7.4%

Free Cash Flow Analysis

(YE Dec.31) (Rs. mn)	CY 07	CY 08	CY 09E	CY 10E	CY 11E
Operating Cash flow	1,888	-947	1,849	3,232	3,953
Capex	1,585	2,622	800	800	1,000
Investment -Strategic	0	-3	0	0	0
Free Cash flow	303	-3,566	1,049	2,432	2,953

Valuation Ratios

(YE Dec.31)	CY 07	CY 08	CY 09	CY 10E	CY 11E
P/E (x)				33.1	26.4
P/BV (x)				5.8	4.8
P/CEPS (x)				29.8	24.1
EV/EBIDTA (x)				21.4	17.0
Market Cap./ Sales (x)				2.3	2.0
Net cash/Market Cap (%)				5%	7%
Dividend Yield (%)				0.3%	0.3%



Market Cap. And Enterprise Value Data as on Mar 02, 2010

Current Market Price (Rs.)	783	
No. of Diluted Shares (mn)	212	
	Rs. Bn	US\$.Bn
Market Cap	165.8	3.6
Total Debt*	0.0	0.0
Cash & Cash Equivalents*	4.1	0.1
Enterprise Value	161.7	3.5

* Debt & Cash & Cash Equivalents as of CY 09 ,INR Exchange Rate 46.02

DuPont Ratio

(YE Dec.31)	CY 07	CY 08	CY 09E	CY 10E	CY 11E
EBIDTA/Sales (%)	12.3%	11.3%	8.5%	10.3%	11.0%
Sales/Operating Assets (x)	5.9	4.2	2.9	3.0	3.2
EBIDTA/Operating Assets (%)	72.0%	47.2%	24.4%	31.2%	35.0%
Operating Assets/ Net Assets (x)	0.7	0.9	1.0	0.9	0.8
Net Earnings/ EBIDTA (%)	67.4%	70.7%	67.1%	67.3%	68.5%
Net Assets/ Equity (x)	1.0	1.0	1.0	1.0	1.0
Return on Equity (%)	35.2%	29.5%	15.7%	19.0%	19.9%

Commonsized P&L Statement

(YE Dec.31)	CY 07	CY 08	CY 09	CY 10E	CY 11E
Total Revenues	100	100	100	100	100
Net Raw Material Consumed	72.4	72.4	72.4	72.4	72.4
Selling, General & Administrative Expenses	10.2	10.4	12.9	11.2	10.6
Personnel	5.2	5.9	6.2	6.1	6.0
Operating Expenses	87.7	88.7	91.5	89.7	89.0
EBITDA	12.3	11.3	8.5	10.3	11.0
Depreciation and Amortization	0.5	0.5	0.8	0.8	0.7
Total Cost	88.2	89.2	92.3	90.5	89.7
EBIT	11.8	10.8	7.7	9.5	10.3
Non Operating Income	1.2	1.9	1.2	1.2	1.2
Interest	0.2	0.5	0.4	0.2	0.0
Profit Before Tax	12.8	12.2	8.5	10.6	11.5
Profit Before Tax (excl. extraordinaries)	12.8	12.2	8.5	10.6	11.5
Tax	4.5	4.2	2.8	3.6	3.9
Net Profit	8.3	8.0	5.7	6.9	7.5
Net Profit (excl. extraordinaries)	8.3	8.0	5.7	6.9	7.5



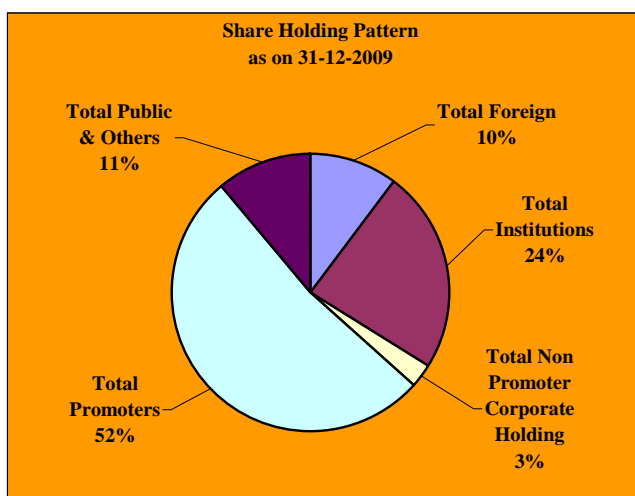
Top Management Team

Designation	Name
Vice Chairman & M.D.	Biplab Majumder
Chairman	Gary Steel
Director	Nasser Munjee
Director	N S Raghavan
Director	D E Udawadia
Director	A K Dasgupta
Director	Peter Leupp
Director	Veli Matti Reinikkala
Alternate Director	Bernhard Jucker
Company Secretary	B Gururaj

Capital Issued History

Date	Share Capital	
	Post Issue (Rs mn.)	Mode of Capital Raising
30/04/1981	40	As Per Annual Report
30/04/1987	50.7	Rights Issue
31/03/1989	52.8	Preference Share Conversion
31/12/1989	98.6	Issue Without Cash Payment
30/11/1993	157.8	Rights Issue
31/12/1993	205.3	Issue To Foreign Collaborators
30/06/1994	273.8	Bonus Issue
31/12/1994	310.6	Shares Issued On Amalgamation
3/1/1997	414.2	Bonus Issue
25/09/2001	423.8	Shares Issued On Amalgamation

Key Statistics

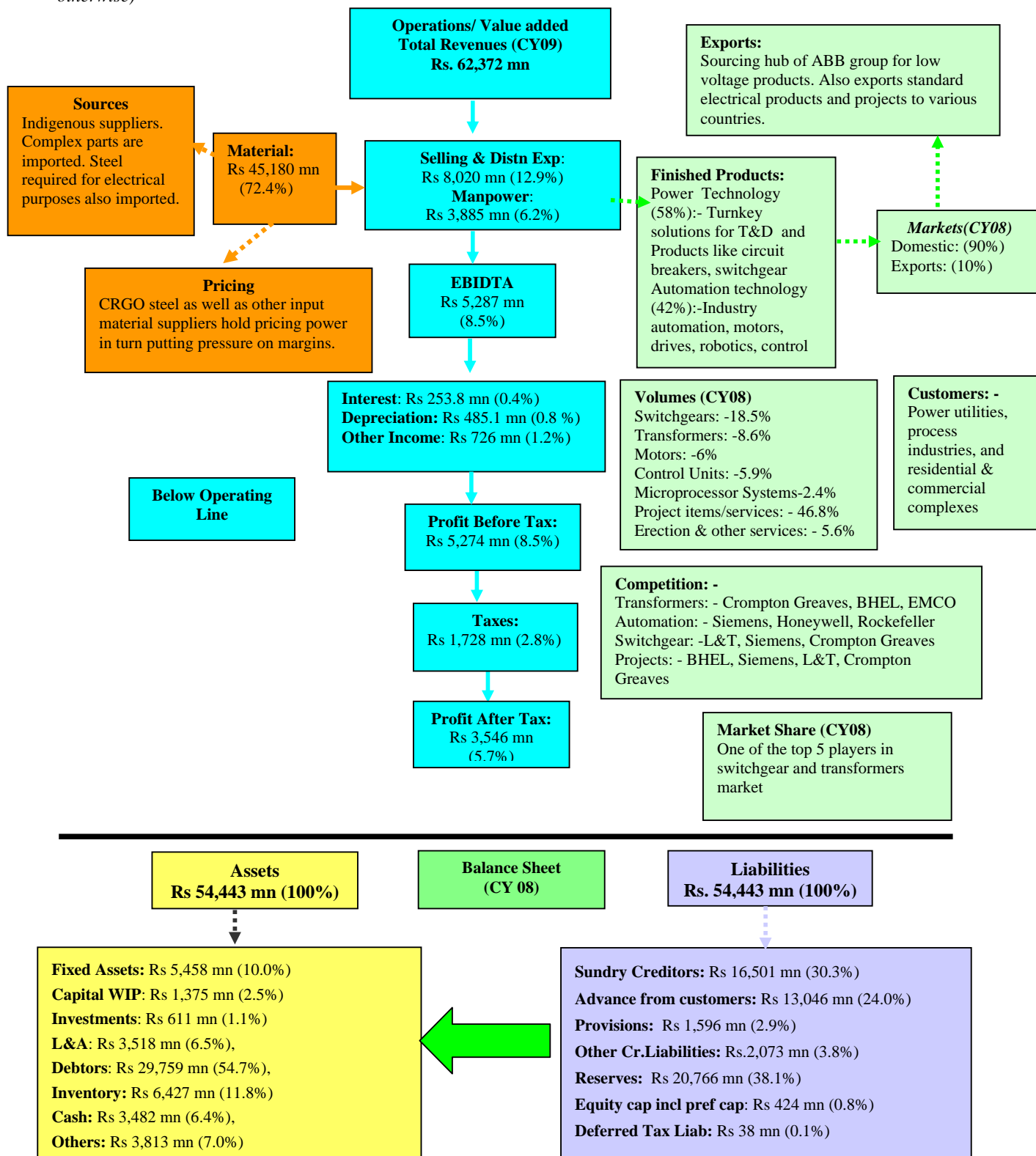


Industry	Capital Goods
52 week High: Low	Rs. Rs.881.5 / 343.4
CMP	Rs.782.5
Avg. Daily Volume (20 days)	0.2 mn
Avg. Daily Value (20 days)	Rs.157.1 mn
Performance over 52 weeks	
ABB Ltd	Up 118.4%
S&P CNX NIFTY	Up 87.6%



ABB's Business in Pictures... (CY09)

(All figures are in Rs. Mn except where stated otherwise. All percentages are percent of revenues, unless stated otherwise)





What Happened Last Quarter...

ABB Ltd. (ABB.IN/ABB.BO) delivered disappointing results for Q4 CY09, with the company's revenue declining across all segments, except the Automation products, accompanied by a contraction in the operating margin, which impacted the overall profitability for the quarter. Total sales fell 13% Y-o-Y to Rs.18.8 bn in Q4 CY09, with sales declining across all the segments (except Automation Products) and the Power System segment recording the highest decline of 43.2% Y-o-Y. The EBIDTA margin declined 435 bps Y-o-Y to 8% in the quarter due to EBIT loss posted by Power systems segment and a decline of 60.1% Y-o-Y to Rs.386 mn in the EBIT of Power Products segment. The contraction in the EBIDTA margin, coupled with a lower Other income, led to the PAT declining 43.2% Y-o-Y to Rs.1096 mn in Q4 CY09. On a positive note, the company's order inflow for the quarter increased 88% Y-o-Y to Rs.23.7 bn (albeit on a lower base of Rs.12.6 bn in Q4 CY08).

ABB's performance in CY09 was impacted by sluggish economic conditions, project delays in the earlier part of the year, orders with long gestation periods and exit from the rural electrification business. In CY09, ABB's order inflow was up 8% Y-o-Y to Rs.86.8 bn, driven by power and infrastructure orders, which helped the company record a strong order backlog of Rs.84.8 bn (up 38% Y-o-Y) (1.2x CY10E sales), thus providing revenue visibility for the next one year. The incremental investment in high-end T&D equipments (765 kV extra high voltage segment, HVDC), primarily from Power Grid Corporation Limited (PGCIL), coupled with a pick up in industrial demand, is expected to drive the momentum in order inflow in CY10...

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...an improvement in capacity utilisation and revival in industrial capex will partly offset the margin pressure arising from pricing pressure in the Power T&D segment, thereby aiding an improvement in the company's margins over the period CY10-11, albeit on a low base of CY09. In view of the

company's lower than expected performance in Q4 CY09, we are making a downward revision to our EPS estimates from Rs.24.9 to Rs.23.6 for CY10 and from Rs.31.3 to Rs.29.6 for CY11. At a P/E of 33 and an EV/EBIDTA of 21x our CY10 estimates, the stock appears richly valued. ***In view of the strong up-tick expected in order inflow of the Power and Industrial segments, we remain positive about the company in the medium to long term and reiterate our rating of 'Market Perform with Outperform bias' on ABB India.***



Comparative Valuations

Company	Year End	EPS (Rs)		P/E (x)		P/S (x)		P/BV (x)		EV/EBITDA (x)		EV/SALES (x)		EBITDA %	RoE %	RoCE %	Annual EPS Growth	Annual Sales Growth
		FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	10E	10E	10E	11E/10E	11E/10E
ABBINDIA	Dec	16.7	23.6	46.8	33.1	2.7	2.3	6.9	5.8	30.6	21.4	2.6	2.2	8.5%	15.7%	16.4%	41.1%	15.6%
BHEL	Mar	86.0	104.6	28.2	23.2	3.7	3.1	7.3	5.8	17.7	14.3	3.3	2.8	18.8%	28.0%	27.8%	21.6%	18.5%
L&T	Mar	54.6	66.5	28.5	23.4	2.1	1.7	4.9	4.2	19.9	16.5	2.5	2.0	12.5%	20.0%	9.9%	21.7%	22.9%
Crompton	Mar	21.2	23.6	21.1	18.9	1.7	1.6	6.6	5.1	12.7	11.0	1.7	1.5	13.4%	35.9%	28.8%	11.5%	12.1%
Thermax	Mar	21.2	27.0	30.0	23.6	2.4	1.9	7.6	6.1	19.0	14.9	2.4	1.9	12.0%	23.7%	23.5%	27.3%	25.9%
Areva	Dec	8.2	9.9	32.0	26.6	1.8	1.5	7.3	6.0	16.6	13.9	1.9	1.6	11.7%	24.5%	16.5%	20.6%	16.4%
Cummins	Mar	22.7	24.6	20.5	18.9	3.0	2.6	5.3	4.5	14.4	12.9	2.8	2.4	19.6%	26.3%	26.4%	8.3%	13.6%

Source: - Company Reports, FG Estimates

* ABB India's & Areva's comparisons are for CY09 and CY10 as against FY'10 & FY'11 for other companies.



Quarterly Result Analysis

(YE Dec.31) (Rs. mn)	CY09 Q4	CY08 Q4	Y-o-Y Change (%)	CY09 Q3	Q-o-Q Change (%)	2009 12M	2008 12M	Y-o-Y Change (%)
Total Revenue	18,852	21,663	-13.0%	14,538	29.7%	62,372	68,370	-8.8%
Less:								
Material Expenses	14,131	15,827	-10.7%	10,628	33.0%	45,180	49,504	-8.7%
Personnel	875	1,014	-13.7%	1,039	-15.7%	3,885	4,016	-3.3%
Other Expenses	2,335	2,142	9.0%	1,648	41.7%	8,020	7,156	12.1%
Total Cost	17,341	18,984	-8.7%	13,315	30.2%	57,085	60,676	-5.9%
EBITDA	1,512	2,680	-43.6%	1,223	23.6%	5,287	7,694	-31.3%
Less Depreciation	125	103	21.3%	127	-1.2%	485	367	32.2%
EBIT	1,387	2,577	-46.2%	1,097	26.4%	4,802	7,327	-34.5%
Non-Operating Income	215	507	-57.5%	159	35.7%	726	1,304	-44.4%
Interest & Financing Charges	26	159	-83.5%	44	-40.3%	254	299	-15.1%
Profit Before Tax	1,576	2,925	-46.1%	1,212	30.1%	5,274	8,332	-36.7%
Tax	587	1,065	-44.9%	385	52.4%	1,767	2,919	-39.5%
Deferred tax	-107	-72	NM	-4	NM	-39	-61	NM
Profit after Tax	1,096	1,931	-43.2%	831	32.0%	3,546	5,474	-35.2%
Profit after Tax (Excl. extra-ordinaries)	1,096	1,931	-43.2%	831	32.0%	3,546	5,474	-35.2%
Diluted EPS (Rs.)	5.2	9.1	-43.2%	4	32.0%	5.2	9.1	-43.2%
Basic no of shares	212	212		212		212	212	
Diluted no of shares	212	212		212		212	212	
Margin Analysis:								
EBITDA Margin (%)	8.0%	12.4%		8.4%		8.5%	11.3%	
EBIT Margin (%)	7.4%	11.9%		7.5%		7.7%	10.7%	
PBT Margin (%)	8.4%	13.5%		10.3%		8.5%	12.2%	
NPM (%)	5.8%	8.9%		9.6%		5.7%	8.0%	

Source: - Company Reports

NM - Not Meaningful

- Total revenue declined 13% Y-o-Y to Rs.18.8 bn in Q4 CY09, as the company recorded a decline in sales across all the segments, except for the Automation products segment.
- The EBIDTA margin contracted by 435 bps Y-o-Y to 8% in the quarter due to EBIT loss posted by Power systems segment and a decline of 60.1% Y-o-Y to Rs.386 mn in the EBIT of Power Products segment. The EBIDTA margin was also impacted by exchange loss of Rs. 121 mn for Q4 CY09 and Rs. 476.5 mn for CY09.
- The contraction in the EDIDTA margin and lower Other income resulted in the PAT declining 43.2% Y-o-Y to Rs.1096 mn.



Segmental Performance

Segmental Revenues

Revenues (Rs mn)	Q4-09	Q4-08	Y-o-Y Growth (%)	12M-09	12M-08	Y-o-Y Growth (%)
Power Products	5,927	6,181	-4.1%	19,936	20,493	-2.7%
Automation Products	5,657	5,303	6.7%	18,022	17,376	3.7%
Others	127	206	-38.5%	569	810	-29.8%
Process Automation	4,421	5,063	-12.7%	12,100	13,334	-9.3%
Power System	4,265	7,502	-43.2%	17,192	23,054	-25.4%
Less : Inter Segment Revenues	1,519	2,165	-29.8%	5,324	5,866	-9.2%
Total Segment Revenue	18,877	22,090	-14.5%	62,495	69,199	-9.7%
Add : Other Unallocable Income	139	21	550.3%	420	265	58.4%
Net Revenue from Operations	19,016	22,112	-14.0%	62,914	69,464	-9.4%

Segmental EBIT & EBIT margins

EBIT (Rs mn)	Q4-09	Q4-08	Y-o-Y Growth (%)	12M-09	12M-08	Y-o-Y Growth (%)
Power Products	386	966	-60.1%	2170	2601	-16.6%
<i>EBIT Margin (%)</i>	6.5%	15.6%		10.9%	12.7%	
Automation Products	939	981	-4.3%	2048	2268	-9.7%
<i>EBIT Margin (%)</i>	16.6%	18.5%		11.4%	13.1%	
Process Automation	714	809	-11.8%	1488	1848	-19.4%
<i>EBIT Margin (%)</i>	16.1%	16.0%		12.3%	13.9%	
Power System	-394	664	NM	65	2028	-96.8%
<i>EBIT Margin (%)</i>	-9.2%	8.8%		0.4%	8.8%	

NM - Not Meaningful

- The Power System segment recorded a sharp decline of 43.2% Y-o-Y in revenue to Rs.4.3 bn in Q4 CY09, as the company decided to exit from rural electrification projects, while the segment posted an EBIT loss of Rs.394 mn for the quarter. Revenue of the Power Products segment declined 4.1% Y-o-Y to Rs.5.9 bn, while its EBIT margin contracted by 912 bps Y-o-Y to 6.5%.
- Revenue of the Automation Product segment grew 6.7% Y-o-Y to Rs.5.6 bn, while its EBIT margin contracted 190 bps Y-o-Y to 16.6%. Lower industrial demand and a high base effect led to a decline of 12.7% Y-o-Y in revenue of the Process Automation segment to Rs.4.4 bn, while its EBIT margin remained flat at 16.1% in Q4 CY09.



Earnings Model - ABB Ltd.

(YE Dec.31) (Rs. mn)	CY09 Q1	CY09 Q2	CY09 Q3	CY09 Q4	CY09	CY10 Q1E	CY10 Q2E	CY10 Q3E	CY10 Q4E	CY10E
Net Revenue	13,931	15,050	14,538	18,852	62,372	15,566	17,179	16,772	22,609	72,127
Less:										
Material Expenses	9,762	10,659	10,628	14,131	45,180	11,052	12,300	12,143	16,724	52,220
Other Expenses	2,012	2,025	1,648	2,335	8,020	1,992	1,924	1,811	2,350	8,078
Personnel	886	1,085	1,039	875	3,885	981	1,203	1,157	1,059	4,400
Total Cost	12,660	13,769	13,315	17,341	57,085	14,025	15,427	15,112	20,134	64,698
EBITDA	1,271	1,281	1,223	1,512	5,287	1,541	1,752	1,660	2,475	7,429
Depreciation & Amortization	109	125	127	125	485	123	144	146	147	560
EBIT	1,163	1,156	1,097	1,387	4,802	1,418	1,608	1,514	2,329	6,869
Other Income	143	209	159	215	726	171	249	189	257	866
Interest & Financing Charges	103	80	44	26	254	26	30	30	34	120
Profit Before Tax	1,203	1,284	1,212	1,576	5,274	1,562	1,827	1,674	2,552	7,615
Tax	419	448	381	480	1,728	531	637	569	874	2,612
Profit after Tax	784	836	831	1,096	3,546	1,031	1,190	1,105	1,678	5,003
Profit after Tax (Excl. extra-ordinaries)	784	836	831	1,096	3,546	1,031	1,190	1,105	1,678	5,003
Diluted EPS (Rs.)	3.7	3.9	3.9	5.2	16.7	4.9	5.6	5.2	7.9	23.6
No of diluted common shares (mn)	212	212	212	212	212	212	212	212	212	212
Margin Analysis:										
EBITDA Margin (%)	9.1%	8.5%	8.4%	8.0%	8.5%	9.9%	10.2%	9.9%	10.9%	10.3%
EBIT Margin (%)	8.3%	7.7%	7.5%	7.4%	7.7%	9.1%	9.4%	9.0%	10.3%	9.5%
PBT Margin (%)	8.6%	8.5%	8.3%	8.4%	8.5%	10.0%	10.6%	10.0%	11.3%	10.6%
NPM (%)	5.6%	5.6%	5.7%	5.8%	5.7%	6.6%	6.9%	6.6%	7.4%	6.9%
Effective Tax rate	34.8%	34.9%	31.4%	30.4%	32.8%	34.0%	34.9%	34.0%	34.3%	34.3%

Source: First Global estimates, Company Reports



IMPORTANT DISCLOSURES

Price Target

Price targets (if any) are derived from a subjective and/or quantitative analysis of financial and non financial data of the concerned company using a combination of P/E, P/Sales, earnings growth, Discounted Cash Flow (DCF) and its stock price history

The risk factors that may impede achievement of the price target/investment thesis are -

- 1) Government policy changes.**
- 2) Change in business environment.**
- 3) Change in macro economic factors.**
- 4) Competitive dynamics.**
- 6) Technological changes and how the different players adjust.**



First Global's Rating System

Our rating system consists of three categories of ratings: Positive, Neutral and Negative. Within each of these categories, the rating may be absolute or relative. When assigning an absolute rating, the price target, if any, and the time period for the achievement of this price target, are given in the report. Similarly when assigning a relative rating, it will be with respect to certain market/sector index and for a certain period of time, both of which are specified in the report.

Rating in this report is relative to: CNX Nifty Index

Positive Ratings

(i) Buy (B) – This rating means that we expect the stock price to move up and achieve our specified price target, if any, over the specified time period.

(ii) Buy at Declines (BD) – This rating means that we expect the stock to provide a better (lower) entry price and then move up and achieve our specified price target, if any, over the specified time period.

(iii) Outperform (OP) – This is a relative rating, which means that we expect the stock price to outperform the specified market/sector index over the specified time period.

Neutral Ratings

(i) Hold (H) – This rating means that we expect no substantial move in the stock price over the specified time period.

(ii) Marketperform (MP) – This is a relative rating, which means that we expect the stock price to perform in line with the performance of the specified market/sector index over the specified time period.

Negative Ratings

(i) Sell (S) – This rating means that we expect the stock price to go down and achieve our specified price target, if any, over the specified time period.

(ii) Sell into Strength (SS) – This rating means that we expect the stock to provide a better (higher) exit price in the short term, by going up. Thereafter, we expect it to move down and achieve our specified price target, if any, over the specified time period.

(iii) Underperform (UP) – This is a relative rating, which means that we expect the stock price to underperform the specified market/sector index over the specified time period.

(iv) Avoid (A) – This rating means that the valuation concerns and/or the risks and uncertainties related to the stock are such that we do not recommend considering the stock for investment purposes.



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