



ABB

STOCK INFO.	BLOOMBERG
BSE SENSEX: 8,344	ABB IN
	REUTERS CODE
S&P CNX: 2,617	ABB.BO

12 March 2009

Neutral

Previous Recommendation: Neutral

Rs364

Equity Shares (m)	212
52-Week Range	1,240/344
1,6,12 Rel. Perf. (%)	-7/-17/-20
M.Cap. (Rs b)	77.0
M.Cap. (US\$ b)	1.5

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
12/08A	68,370	5,325	25.1	8.3	14.5	3.7	28.5	45.6	1.1	9.6
12/09E	73,685	5,197	24.5	-2.4	14.8	3.0	22.2	35.0	1.0	9.4
12/10E	73,838	4,962	23.4	-4.5	15.5	2.6	17.8	28.3	0.9	9.4

### ABB India: Analyst meet takeaways

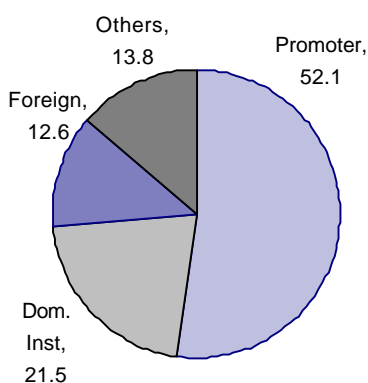
**Order intake to improve in power segment; automation division under pressure:** ABB India's management indicated that while order intake in power segment is likely to be healthy, automation business is expected to witness slowdown. In CY08, segments like Iron and Steel, Cement and Aluminium contributed to bulk of the growth in the automation segment, where the demand outlook is weak. We believe that automation products is the weakest link for ABB India (CY08: 23% of Revenues and 26% of EBIT) as it has the shortest order book (0.3x) and given the diverse business profile, capacity and resources need to be constantly adjusted depending on market conditions.

**EBITDA margins to decline with change in business mix, pricing pressures:** We expect share of revenues of automation business to decline from 42% in CY08 to 40% in CY09 and 36% in CY10; and share in EBIT to decline from 48% in CY08 to 42% in CY09 and 36% in CY10. Given the change in composition towards power business in CY09 / CY10, we expect EBIT margins to decline from 10.7% in CY08 to 10.1% in CY09 and 9.4% in CY10.

**Higher than expected working capital, net cash at Rs2.8b in December 2008 (v/s Rs6.5b YoY):** Working capital has witnessed deterioration and stands at 17% of revenues in CY08, v/s 8% in CY07. Also, net cash level has declined from Rs6.4b in December 2007 to Rs2.8b in December 2008.

**Financials and valuations:** We are downgrading our earnings estimates for CY09 by 3.5% and CY10 by 6.7% to factor in the business headwinds. The stock trades at PER of 14.8x CY09 and 15.5x CY10. Maintain **Neutral** with price target of Rs368/sh (15x CY09E).

SHAREHOLDING PATTERN % (DEC.08)



STOCK PERFORMANCE (1 YEAR)

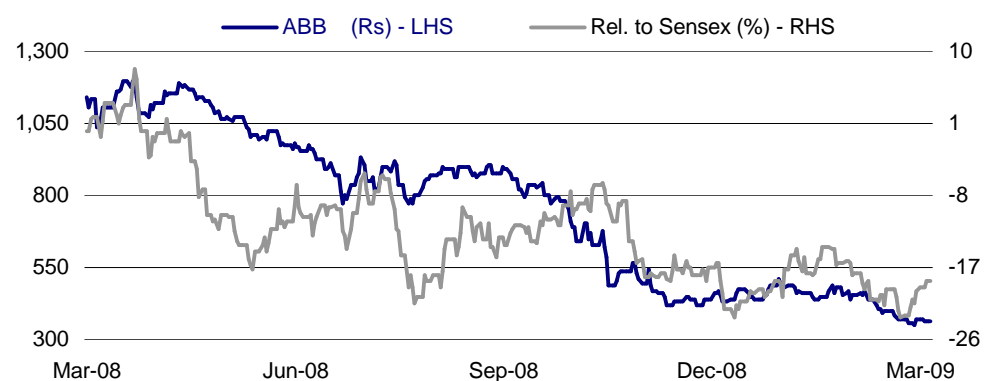


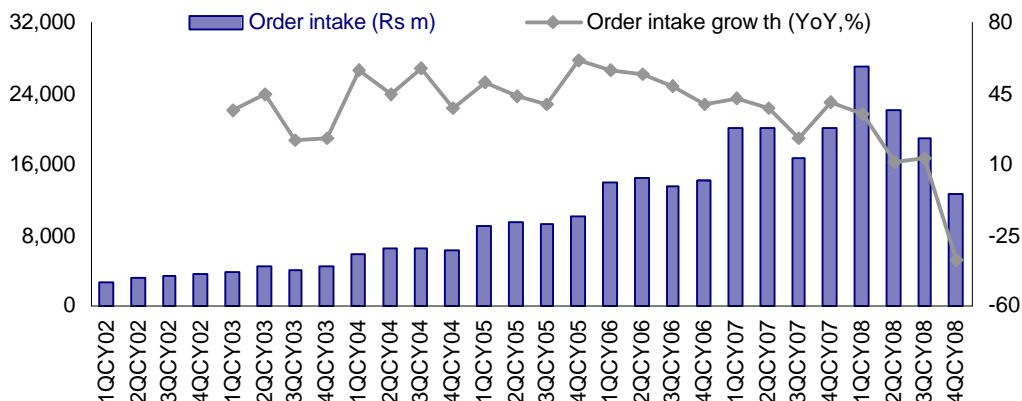
ABB India's management indicated that while order intake in power segment is likely to be healthy, automation business is expected to witness slowdown. In CY08, segments like Iron and Steel, Cement and Aluminium contributed to bulk of the growth in the automation segment, where the demand outlook is weak. We believe that automation products is the weakest link for ABB India (CY08: 23% of Revenues and 26% of EBIT) as it has the shortest order book (0.3x) and given the diverse business profile, capacity and resources need to be constantly adjusted depending on market conditions. We expect share of revenues of automation business to decline from 42% in CY08 to 40% in CY09 and 36% in CY10; and share in EBIT to decline from 48% in CY08 to 42% in CY09 and 36% in CY10. Working capital has witnessed deterioration and stands at 17% of revenues in CY08 as against 8% in CY07. Also, net cash level has declined from Rs6.4b in December 2007 to Rs2.8b in December 2008. We further cut our earnings estimates by 3.5% for CY09 and 6.7% for CY10 and reduce target to Rs368/sh.

#### **Order intake to improve in power segment; automation division under pressure**

Order intake in CY08 stood at Rs80.5b (+5% YoY) and 4QCY08 was down 37.1% YoY (first instance of decline since 4QCY05) and 33.2% QoQ. This decline was due to lower order intake from power segment (delay in achieving financial closure), exit from rural electrification (APDRP) business and delays in private capex. Management indicated that power segment is likely to witness healthy order intake in CY09, driven by increased tendering from Powergrid, State Transmission Utilities, etc in segments like 400KV / 765KV substations, HVDC, etc. Also, order intake from infrastructure segments like airports, ports, metros, etc is likely to remain healthy.

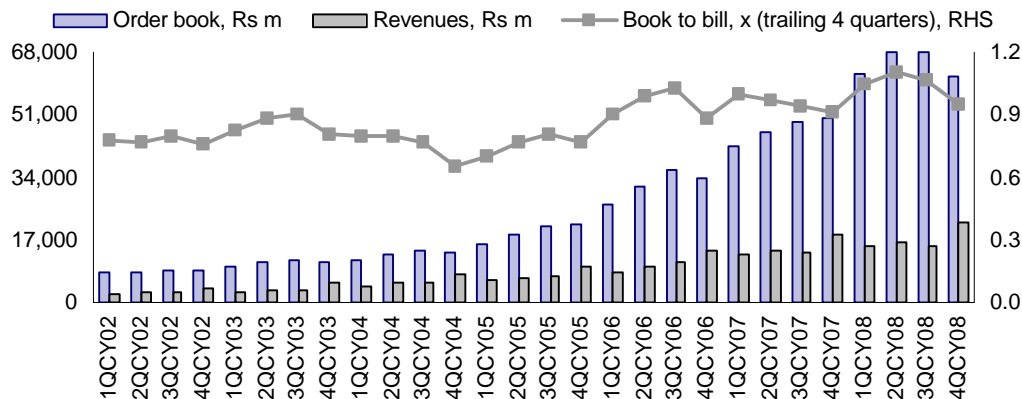
Automation business (41% of revenues and 47% of EBIT in CY08), which is largely dependant on private capex is expected to witness slowdown in terms of order intake. Management indicated that demand in end markets like real estate, metals, oil and gas, minerals, pulp etc continue to remain weak. In CY08, segments like Iron and Steel, Cement and Aluminium contributed to bulk of the growth in the automation segment. We believe that automation products is the weakest link for ABB India (CY08 23% of Revenues and 26% of EBIT) as it has the shortest order book (0.3x) and given the diverse business profile, capacity and resources need to be constantly adjusted depending on market conditions.

ORDER INTAKE TREND (RS M)



Management indicated that the slower order intake growth during 4QCY08 was on account of delay in power systems order and ABB's exit from rural electrification business

BOOK-TO-BILL RATIO DECLINES TO 0.9X TTM REVENUES



Order book as of December 2008 stands at Rs61.6b (+22.6% YoY), book to bill ratio of 0.9x CY08 revenues

Source: Company

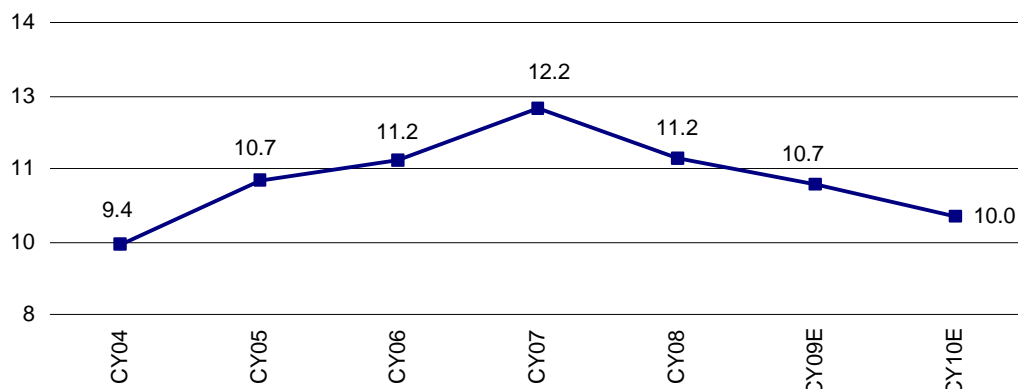
**EBITDA margins to decline with change in business mix, pricing pressures**

During CY08, EBIT contribution of automaton products and process automation increased to 47.1% from 41.2% in CY07 and 41% in CY06. EBIT margins in automation business stands at 13.4% as against 10.5% in power business. Given the change in composition towards power business in CY09 / CY10, we expect EBIT margins to decline from 10.7% in CY08 to 10.1% in CY09 and 9.4% in CY10. Also, pricing pressures in power division will also result in margin decline of 70bp over CY08 / CY10. We expect operating environment to remain competitive in CY09 given increased capacities particularly by Siemens and Areva. Management indicated that impact of commodity prices on the realizations would be limited to 5-8% at the composite level due to deviation in sensitivity of different products to commodity prices.

We expect share of revenues of the automation business to decline from 42% in CY08 to 40% in CY09 and 36% in CY10; and share in EBIT to decline from 48% in CY08 to 42% in CY09 and 36% in CY10.

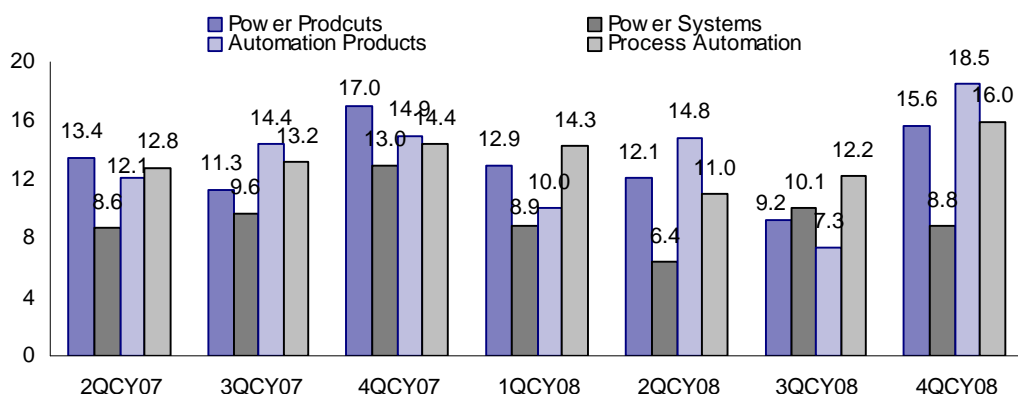
Expect margin pressure due to changing business mix towards power segment (lower margin) during CY09/CY10

EXPECT EBITDA MARGIN PRESSURE (%)



We expect share of revenues of the automation business to decline from 42% in CY08 to 40% in CY09 and 36% in CY10; and share in EBIT to decline from 48% in CY08 to 42% in CY09 and 36% in CY10

SEGMENTAL EBIT (%)



Source: Company/MOSL

SEGMENTAL DETAILS (RS M)

	1QCY07	2QCY07	3QCY07	4QCY07	1QCY08	2QCY08	3QCY08	4QCY08	VARI. (%)	CY07	CY08	VARI. (%)
<b>Automation Products</b>												
Revenue	2,880	3,010	3,283	4,159	3,951	3,953	4,169	5,303	27.5	13,332	17,375	30.3
PBIT	326	364	473	621	396	584	304	981	57.9	1,784	2,265	27.0
EBIT Margin (%)	11.3	12.1	14.4	14.9	10	14.8	7.3	18.5	3.6	13.4	13	-0.3
<b>Process Automation</b>												
Revenue	2,671	2,759	2,496	3,126	2,953	2,844	2,474	5,063	62.0	11,053	13,334	20.6
PBIT	200	353	330	451	421	314	303	809	79.6	1,333	1,847	38.6
EBIT Margin (%)	7.5	12.8	13.2	14.4	14.3	11	12.2	16	1.6	12.1	13.9	1.8
<b>Powertech / Power Products</b>												
Revenue	3,803	4,031	3,617	4,874	4,263	5,130	4,920	6,181	26.8	16,326	20,494	25.5
PBIT	344	541	408	828	548	622	454	966	16.6	2,121	2,591	22.1
EBIT Margin (%)	9	13.4	11.3	17	12.9	12.1	9.2	15.6	-1.4	13	12.6	-0.4
<b>Power Systems</b>												
Revenue	4,480	5,110	5,135	7,402	5,122	5,322	5,109	7,502	1.4	22,127	23,055	4.2
PBIT	424	442	493.5	961	455	343	516	664	-30.9	2,320	1,978	-14.8
EBIT Margin (%)	9.5	8.6	9.6	13	8.9	6.4	10.1	8.8	-4.1	10.5	8.6	-1.9
<b>Others</b>												
Revenue	54	73	59	158	111	275	218	206	30.4	344	809	135.3
PBIT	-1	1	3	10	9	19	12	20	105.7	12	60	380.5
EBIT Margin (%)	-2.4	1.1	5.2	6.2	8.2	6.8	5.3	9.9	3.6	3.6	7.4	3.8

Source: Company/MOSL

**Higher than expected working capital, net cash at Rs2.8b as at December 2008 (v/s Rs6.5b YoY)**

ABB has witnessed deterioration in working capital cycle, which stands at 17% of revenues in CY08 as against 8% in CY07. The management stated that debtors have increased to 140 days in CY08 from 120days in CY07; while inventory has increased to Rs6.5b in December 2008 (35 days) from Rs4.9b in December 2007 (30 days). Also, net cash level has declined from Rs6.4b in December 2007 to Rs2.8b in December 2008, driven by increased capex of Rs2.3b in CY08 and deterioration in working capital cycle. The management also stated that the company had net borrowings of ~Rs2b over the past 6 months, but the year end balance was nil.

Capex during CY08 stood at Rs2.3b and the management expects capex at Rs700m during CY09. The transformer capacity has increased to 24,000MVA in CY08, vs. 15,000MVA in CY07.

**Financials and valuations**

We are downgrading our earnings estimates for CY09 by 3.5% and CY10 by 6.7% to factor in the business headwinds. We expect revenues of Rs74b in CY09 (up 7.8% YoY) and Rs74b in CY10 (up 0.2% YoY), and we factor in margin impact of 129bp during CY08-10E. We expect ABB India to report earnings of Rs24.5/sh in CY09 and Rs23.4/sh in CY10. The stock is trading at PER of 14.8x CY09 and 15.5x CY10. Maintain **Neutral** with price target of Rs368/sh.

INCOME STATEMENT		(Rs Million)				
Y/E DECEMBER	2006	2007	2008	2009E	2010E	
<b>Net Sales</b>	<b>42,740</b>	<b>59,303</b>	<b>68,370</b>	<b>73,685</b>	<b>73,838</b>	
Change (%)	44.2	38.8	15.3	7.8	0.2	
Raw Materials	12,655	15,771	20,148	22,105	21,413	
Staff Cost	2,414	3,061	4,016	4,782	5,595	
Other Mfg. Expenses	19,301	27,722	30,495	32,679	32,637	
Selling Expenses	2,737	4,390	4,829	5,011	5,538	
Admin. & Other Exp.	865	1,113	1,224	1,253	1,255	
<b>EBITDA</b>	<b>4,767</b>	<b>7,246</b>	<b>7,658</b>	<b>7,855</b>	<b>7,400</b>	
% of Net Sales	11.2	12.2	11.2	10.7	10.0	
Depreciation	265	324	367	446	476	
Interest	7	68	262	300	340	
Other Income	737	710	1,275	825	991	
<b>PBT</b>	<b>5,232</b>	<b>7,565</b>	<b>8,304</b>	<b>7,934</b>	<b>7,576</b>	
Tax	1,829	2,648	2,858	2,737	2,614	
Rate (%)	35.0	35.0	34.4	34.5	34.5	
<b>PAT</b>	<b>3,403</b>	<b>4,917</b>	<b>5,446</b>	<b>5,197</b>	<b>4,962</b>	
<b>Adjusted PAT</b>	<b>3,403</b>	<b>4,917</b>	<b>5,325</b>	<b>5,197</b>	<b>4,962</b>	
Change (%)	55.6	44.5	8.3	-2.4	-4.5	

BALANCE SHEET		(Rs Million)				
Y/E DECEMBER	2006	2007	2008E	2009E	2010E	
Share Capital	424	424	424	424	424	
Reserves	11,535	15,840	20,671	25,267	29,656	
<b>Networth</b>	<b>11,958</b>	<b>16,263</b>	<b>21,095</b>	<b>25,691</b>	<b>30,080</b>	
Loans	15	6	0	0	0	
Net Deferred Tax Liabil	165	128	115	104	93	
<b>Capital Employed</b>	<b>12,139</b>	<b>16,397</b>	<b>21,210</b>	<b>25,795</b>	<b>30,174</b>	
Gross Fixed Assets	5,145	5,769	8,054	8,839	9,724	
Less: Depreciation	2,074	2,250	2,643	3,089	3,565	
<b>Net Fixed Assets</b>	<b>3,071</b>	<b>3,519</b>	<b>5,411</b>	<b>5,750</b>	<b>6,159</b>	
Capital WIP	246	1,059	600	400	500	
Investments	774	705	705	705	705	
<b>Curr. Assets</b>	<b>27,967</b>	<b>41,107</b>	<b>47,817</b>	<b>53,317</b>	<b>57,208</b>	
Inventory	3,547	4,887	6,556	8,075	8,092	
Debtors	15,703	24,236	31,844	35,328	35,402	
Cash & Bank Balance	5,464	6,429	2,861	2,848	6,634	
Loans & Advances	3,253	5,556	6,556	7,066	7,080	
<b>Current Liab. &amp; Prov</b>	<b>19,919</b>	<b>29,993</b>	<b>33,323</b>	<b>34,377</b>	<b>34,398</b>	
Creditors	19,363	29,315	32,218	33,309	33,379	
Other Liabilities	0	0	0	0	0	
Provisions	556	678	1,104	1,067	1,019	
<b>Net Current Assets</b>	<b>8,048</b>	<b>11,114</b>	<b>14,495</b>	<b>18,940</b>	<b>22,810</b>	
<b>Application of Funds</b>	<b>12,139</b>	<b>16,397</b>	<b>21,210</b>	<b>25,795</b>	<b>30,174</b>	

E: MOSL Estimates

RATIOS		(Rs Million)				
Y/E DECEMBER	2006	2007	2008E	2009E	2010E	
<b>Basic (Rs)</b>						
<b>EPS</b>	<b>16.1</b>	<b>23.2</b>	<b>25.1</b>	<b>24.5</b>	<b>23.4</b>	
<b>Growth</b>	<b>55.6</b>	<b>44.5</b>	<b>8.3</b>	<b>-2.4</b>	<b>-4.5</b>	
Cash EPS	17.3	24.7	26.9	26.6	25.7	
Book Value	56.4	76.7	99.5	121.2	141.9	
DPS	2.3	2.6	2.9	2.8	2.7	
Payout (incl. Div. Tax.)	14.2	11.3	10.0	10.0	10.0	
<b>Valuation (x)</b>						
P/E		15.7	14.5	14.8	15.5	
Cash P/E		14.7	13.5	13.7	14.2	
EV/EBITDA		9.6	9.6	9.4	9.4	
EV/Sales		1.2	1.1	1.0	0.9	
Price/Book Value		4.7	3.7	3.0	2.6	
Dividend Yield (%)		0.7	0.8	0.8	0.7	
<b>Profitability Ratios (%)</b>						
RoE	32.4	34.8	28.5	22.2	17.8	
RoCE	49.2	53.5	45.6	35.0	28.3	
<b>Turnover Ratios</b>						
Debtors (Days)	134	149	170	175	175	
Inventory (Days)	102	113	119	133	138	
Creditors. (Days)	165	180	172	165	165	
Asset Turnover (x)	3.5	3.6	3.2	2.9	2.4	
<b>Leverage Ratio</b>						
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	

CASH FLOW STATEMENT		(Rs Million)				
Y/E DECEMBER	2006	2007	2008E	2009E	2010E	
<b>PBT before EO Items</b>	<b>5,232</b>	<b>7,565</b>	<b>8,304</b>	<b>7,934</b>	<b>7,576</b>	
Add : Depreciation	265	324	367	446	476	
Interest	7	68	262	300	340	
Less : Direct taxes paid	1,829	2,648	2,858	2,737	2,614	
(Inc)/Dec in WC	-962	-2,102	-6,948	-4,459	-84	
<b>CF from operations</b>	<b>2,713</b>	<b>3,207</b>	<b>-873</b>	<b>1,483</b>	<b>5,694</b>	
EO Income	0	0	0	0	0	
<b>CF from Oper. incl. E</b>	<b>2,713</b>	<b>3,207</b>	<b>-873</b>	<b>1,483</b>	<b>5,694</b>	
(Inc)/Dec in FA	-932	-1,585	-1,799	-585	-985	
(Pur)/Sale of Investmer	98	69	0	0	0	
<b>CF from investment:</b>	<b>-834</b>	<b>-1,516</b>	<b>-1,799</b>	<b>-585</b>	<b>-985</b>	
(Inc)/Dec in Netw orth	78	-91	-13	-12	-10	
(Inc)/Dec in Debt	-12	-10	-6	0	0	
Less : Interest Paid	7	68	262	300	340	
Dividend Paid	483	558	615	600	573	
<b>CF from Fin. Activity</b>	<b>-424</b>	<b>-727</b>	<b>-895</b>	<b>-911</b>	<b>-923</b>	
<b>Inc/Dec of Cash</b>	<b>1,455</b>	<b>964</b>	<b>-3,568</b>	<b>-13</b>	<b>3,786</b>	
Add: Beginning Balance	4,010	5,464	6,429	2,861	2,848	
<b>Closing Balance</b>	<b>5,464</b>	<b>6,429</b>	<b>2,861</b>	<b>2,848</b>	<b>6,634</b>	

**N O T E S**



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**ABB**

1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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