

RESULTS REVIEW

ABB Limited (India)

Hold

Back on recovery path with promising outlook

Share Data

Market Cap	Rs. 168.6 bn
Price	Rs. 795.80
BSE Sensex	16,741.30
Reuters	ABB.BO
Bloomberg	ABB IN
Avg. Volume (52 Week)	0.11 mn
52-Week High/Low	Rs. 856.95 / 344
Shares Outstanding	211.91 mn

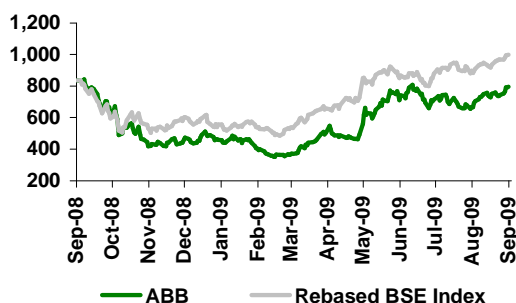
Valuation Ratios

Year to 31 Dec	2009E	2010E
EPS (Rs.)	25.6	32.6
+/- (%)	(0.7)%	27.2%
PER (x)	31.0x	24.4x
EV/ Sales (x)	2.4x	2.0x
EV/ EBITDA (x)	18.9x	15.7x

Shareholding Pattern (%)

Promoters	52
FII's	12
Institutions	22
Public & Others	14

Relative Performance



For Q2'09, ABB Limited (India)'s revenue declined by 7.1% yoy to Rs. 15.1 bn. EBITDA declined by 32.5% yoy to Rs. 1.4 bn due to an increase in employee costs and other expenditures. In the near-to-medium term, we expect the Company to benefit from the increasing Infrastructure investments, expansion plans in the Power sector, and a revival of corporate capex cycle, which should give a boost to the Company's order book.

Order book to improve: In Q2'09, ABB secured Rs. 21.1 bn worth of new orders. Most of these orders have been placed by government utilities. At the end of Q2'09, the Company had an outstanding order book of Rs. 76.2 bn, which represents 1.1x of FY08 revenue. Going forward, we expect the Power segment of the Company to get a boost from the investments in the Power sector by the Government of India (GoI). GoI has envisaged a capacity addition of more than 78,000 MW in XIth five year plan, and around 100,000 MW in XIIth five year plan to address the current power deficit and increasing demand for power in the country. Accordingly, we expect robust order inflows for the Company in the near-to-medium term.

Resumption of corporate capex plans: Improving business environment on account of recovering global economies, a low cost of borrowing, and sufficient liquidity should fuel the Industrial growth. Consequently, we expect a resumption of capital expenditure plans in key sectors such as Cement, Oil and gas, Minerals. An increase in capital expenditure in the key sectors augurs well for the Industrial segment of the Company, which provides automation products and solutions, and contributes ~40% of the total revenue of the Company.

Key Figures

Quarterly data	Q2'08	Q1'09	Q2'09	QoQ%	YoY%
(Figures in Rs. mn, except per share data)					
Net Sales	16,304	14,061	15,148	7.7%	(7.1)%
Adj. EBITDA	2,042	1,401	1,379	(1.5)%	(32.5)%
Adj. Net Profit	1,318	784	836	6.7%	(36.6)%
Margins(%)					
EBITDA	12.5%	10.0%	9.1%		
NPM	8.1%	5.6%	5.5%		
Per Share Data (Rs.)					
Adj. EPS	6.2	3.7	3.9	6.7%	(36.6)%

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Power T&D segment's growing importance: The government has planned huge investments to scale up the inter-regional power transmission capacity from the current 17,000 MW to 37,000 MW by 2012. Besides, every 1 MW of addition in power generation capacity requires 7 MVA of new transformer capacity addition to facilitate the transfer of power. The government is also emphasising on reducing the T&D losses (India-27%, World-15%), by strengthening the grids and replacing old T&D equipments. Consequently, we expect the Company's offering of power T&D product and solutions to have robust order inflows in near to medium term future.

Valuation

We have valued ABB by using a combination of the Discounted Cash Flow (DCF) model and the Peer-based Multiple method. We have assigned subjective weights of 70% to our DCF and 30% to our Peer-based Multiple methodologies for calculating the fair value estimate. This valuation model yields a fair value of Rs. 798 per share. We believe that the stock is fairly valued at the CMP. Thus, we give the stock a Hold rating.

Weighted average value per share		
Valuation Method	Value (Rs.)	Weight (%)
Discounted Cash Flow	811	70%
Peer Based Multiple	768	30%
Weighted Average Fair Value	798	100%

- In our DCF valuation, we have arrived at a fair value estimate of Rs. 811, assuming a WACC of 15.6% and a terminal growth rate of 5%.
- In the Peer-Based valuation, we have made a comparison based on the EV/EBITDA multiples (FY10) for ABB's peers. Based on a peer-group average EV/EBITDA multiple of 17.4x FY10 earnings, and our estimated trailing-twelve-month EBITDA (March, 2010) at Rs. 9.1 bn, we arrive at a share price of Rs. 768.

Company	Stock Price (Rs.)	Market Cap (Rs. Mn)	Enterprise Value (Rs. Mn)	P/E	EV/EBITDA	
					FY10	FY11
Alstom	544.5	36,495	32,355	27.1x	14.5x	11.5x
BHEL	2,275.6	1,113,906	1,036,060	35.6x	18.3x	13.5x
Crompton Greaves	313.3	114,851	120,274	20.6x	12.8x	10.6x
L&T	1,644.4	962,530	1,062,238	33.1x	20.4x	15.8x
Siemens	560.8	189,079	175,510	31.4x	21.2x	20.6x
MEAN					17.4x	14.4x
MEDIAN					18.3x	13.5x
Valuation						
EV					159,180	
Net Debt					(3,482)	
Share Price						768

Result Highlights and Outlook

In Q2'09, the Company's revenue declined by 7.1% yoy to Rs. 15.1 bn, mainly due to fall in revenue in the power segment.

Power Systems and Power Products revenue, which contributes ~60% of the total revenue, declined 12.8% and 2.2% yoy, respectively, in Q2'09. Meanwhile, the Process Automation and Automation Products performed relatively better, with revenues picking up by a 2.7% and 2.3% yoy. The growth in these segments was moderate due to the revival of spending by private players in the Q2'09.

Going forward, we expect a healthy order-inflow for the Company on the back of increasing infrastructure investments in the country and expected recovery in the economy. Accordingly, we have upwardly revised our estimates and expect order book of the Company to be ~Rs. 77 bn and



~Rs. 96 bn in FY09 and FY10, respectively, as against Rs. 61 bn in FY08.

In Q2'09, EBITDA declined by 32.5% yoy to 1.4 bn, mainly on account of an increase in other expenditures (18.5% yoy) and employee cost (6.9% yoy). Net profit was affected further due to a higher depreciation charge during Q2'09 vis-à-vis Q2'08, as the Company had increased its capacity in 2008. As a result, net profit margin stood at 5.5% in Q2'09, as against 8.1% in Q2'08.

Key Figures

Year to Dec	FY06	FY07	FY08	FY09E	FY10E	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY08-10E)
Net Sales	42,740	59,303	69,464	70,095	80,946	7.9%
EBITDA	4,767	7,246	8,814	8,721	10,516	9.2%
Adj. Net Profit	3,403	4,917	5,474	5,434	6,911	12.4%
Margins(%)						
EBITDA	11.2%	12.2%	12.7%	12.4%	13.0%	
NPM	8.0%	8.3%	7.9%	7.8%	8.5%	
Per Share Data (Rs.)						
Adj. EPS	16.1	23.2	25.8	25.6	32.6	12.4%
PER (x)	49.6x	34.3x	30.8x	31.0x	24.4x	

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