



ABB

STOCK INFO.	BLOOMBERG
BSE SENSEX: 17,016	ABB IN
	REUTERS CODE
S&P CNX: 5,090	ABB.BO

28 April 2008

Neutral

Previous Recommendation: Neutral

Rs1,153

Equity Shares (m)	211.9
52-Week Range	1,744/789
1,6,12 Rel. Perf. (%)	-8/-8/17
M.Cap. (Rs b)	244.4
M.Cap. (US\$ b)	6.1

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
12/07A	59,303	4,908	23.2	44.2	49.8	15.0	34.7	53.3	4.0	32.6
12/08E	78,214	6,604	31.2	34.5	37.0	11.0	34.4	53.1	3.0	23.9
12/09E	103,041	8,761	41.3	32.7	27.9	8.2	33.7	52.1	2.2	17.4

- Revenues below estimates, EBIDTA margin expansion positive surprise:** For 1QCY08, ABB reported net revenues of Rs15.4b (up 17% YoY), EBIDTA of Rs1.7b (up 34.8% YoY) and net profit of Rs1.2b (up 35.9% YoY). EBITDA margin expanded to 11.3% (+150bp YoY) in 1QCY08 from 9.8% in 1QCY07, largely due to savings in raw material costs. We believe margin expansion will be difficult to sustain going forward, given increased commodity price pressures.
- Continued strong order backlog:** Order backlog as of March 2008 stood at Rs61.8b (up 45% YoY). During 1QCY08, order intake remained healthy at Rs26.9b (+34.7% YoY). Order intake is in line with our expectation of 31% CAGR during CY07-CY09. The order intake has been driven by the power projects division, which includes investments in strengthening of transmission grid and automation products.
- Segment wise analysis:** Power products and power projects reported revenue growth of 12.1% and 14.3% respectively during 1QCY08. This compares with revenue growth of 34.6% and 46.6% respectively during CY07, indicating significant deceleration in growth rates. Process automation margins improved 680bp YoY to 14.3%, automation products margin declined 130bp YoY to 10%, power products margin improved 390bp YoY to 12.9% and power systems margin declined 60bp YoY to 8.9%.
- Valuation and view:** We expect ABB India to report net profit of Rs6.6b (up 35% YoY) in CY08 and Rs8.8b (up 32.7% YoY) in CY09. The stock trades at a PE of 37.9x CY08E and 28.5x CY09E. We arrive at a target price of Rs1,034 based on PE multiple of 25x CY09E. Maintain **Neutral**.

QUARTERLY PERFORMANCE										(Rs Million)
Y/E DECEMBER	CY07				CY08				CY07	CY08
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	13,124	14,009	13,775	18,394	15,353	18,211	18,872	25,778	59,303	78,214
Change (%)	63.5	43.8	28.7	29.0	17.0	30.0	37.0	40.1	38.8	31.9
EBITDA	1,282	1,638	1,724	2,602	1,728	2,204	2,397	3,470	7,246	9,798
Change (%)	84.6	60.6	55.9	33.7	34.8	34.5	39.0	33.3	52.0	35.2
As % of Sales	9.8	11.7	12.5	14.1	11.3	12.1	12.7	13.5	12.2	12.5
Depreciation	86	77	79	82	83	100	105	131	324	419
Interest	10	23	16	20	28	17	15	20	68	80
Other Income	152	147	158	254	185	200	250	265	710	900
Extra-ordinary Income	0	0	0	0	0	0	0	0	0	0
PBT	1,337	1,686	1,787	2,755	1,801	2,287	2,527	3,585	7,565	10,199
Tax	471	600	630	947	624	806	891	1,264	2,648	3,595
Effective Tax Rate (%)	35.2	35.6	35.3	34.4	34.6	35.3	35.3	35.3	35.0	35.3
Reputed PAT	866	1,086	1,157	1,808	1,177	1,481	1,636	2,321	4,917	6,604
Adj. PAT	866	1,079	1,170	1,808	1,177	1,481	1,636	2,321	4,917	6,604
Change (%)	50.0	42.5	34.0	44.5	35.9	37.2	39.8	28.4	44.5	34.3

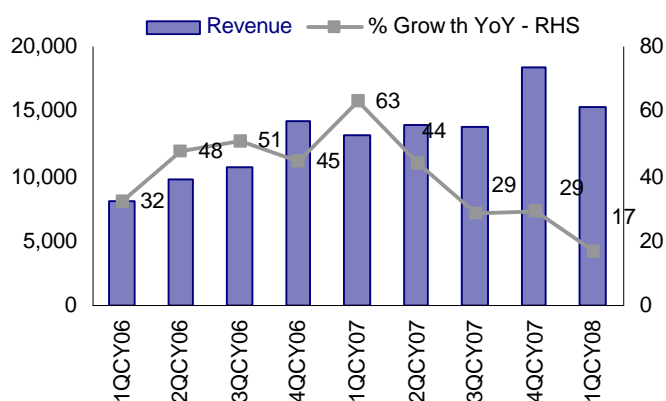
E: MOSL Estimates

1QCY08: EBIDTA margin expansion a positive surprise

For 1QCY08, ABB reported net revenues of Rs15.4b (up 17% YoY), EBIDTA of Rs1.7b (up 34.8% YoY) and net profit of Rs1.2b (up 35.9% YoY). While the revenues are below estimates of Rs17.5b, EBIDTA margin expansion was a positive surprise, and thus net profit was in line with estimates. EBITDA margin expanded to 11.3% (+150bp YoY) in 1QCY08 from 9.8% in 1QCY07.

Power products (25.8% of revenues) and power projects (30.9% of revenues) reported revenue growth of 12.1% and 14.3% respectively during 1QCY08. This compares with revenue growth of 34.6% and 46.6% respectively during CY07, indicating significant deceleration in growth rates. We believe that this is largely due to delays in power sector, resulting in execution constraints and tilt in revenue mix towards project business (long gestation) from product business (smaller gestation, relatively higher margin segment). Contribution from project division has increased to 55.0%+ in CY07, from 54.3% in CY06 and 49.8% in CY05.

QUARTERLY REVENUE TREND (RS M) AND % GROWTH (YOY)

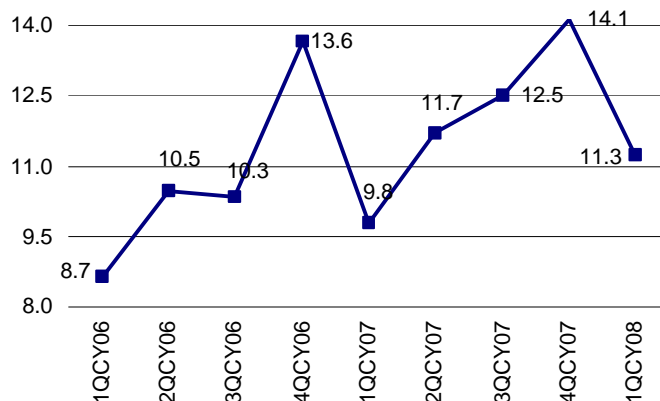


Source: Company/Motilal Oswal Securities

ABB's EBIDTA margin during 1QCY08 increased to 11.3% (up 150bp YoY). The increase is largely due to lower raw material cost (as % of revenue), which declined to 71.8% in 1QCY08 (vs. 74.3% during 1QCY07). Staff costs as a % of revenues increased to 6.3% in 1QCY08, up from 5.3% in 1QCY07. ABB has been successful in containing the impact of increasing raw materials during 1QCY08, indicating strong pricing power and ability to manage costs

increases better due to group's global procurement and hedging mechanism. We believe margin expansion will be difficult to sustain going forward, given increased commodity price pressures.

MARGIN TREND (%)

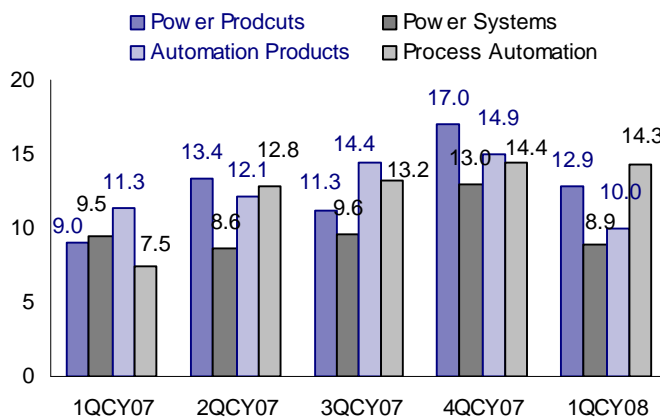


Source: Company

Segment wise analysis: Margin improvement continues

PBIT margin for 1QCY08 improved 204bp to 11.8% YoY. Process automation margins improved 680bp YoY to 14.3%, automation products margin declined 130bp YoY to 10%, power products margin improved 390bp YoY to 12.9% and power systems margin declined 60bp YoY to 8.9%. ABB has been successful in containing the impact of increasing raw materials during 1QCY08, indicating strong pricing power and ability to manage costs increases in a better manner due to global group procurements and hedging.

SEGMENT-WISE EBIT MARGIN TREND (%)



Source: Company

SEGMENTAL DETAILS: (RS M)

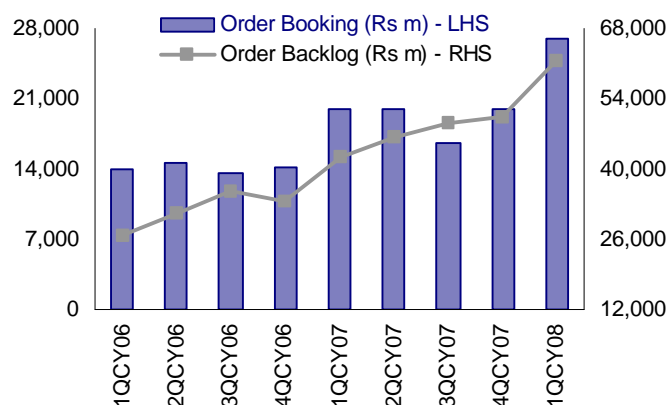
	1QCY06	2QCY06	3QCY06	4QCY06	1QCY07	2QCY07	3QCY07	4QCY07	1QCY08
Revenues									
Automation Products	1,912	2,090	2,320	2,857	2,880	3,010	3,283	4,159	3,951
Process Automation	1,620	1,781	2,250	3,489	2,671	2,759	2,496	3,126	2,953
Power Products	2,072	2,943	3,238	3,878	3,803	4,031	3,617	4,874	4,263
Power Systems	3,008	3,571	3,541	4,976	4,480	5,110	5,135	7,402	5,122
EBIT									
Automation Products	217	271	230	428	326	364	473	621	396
Process Automation	136	258	219	370	200	353	330	451	421
Power Products	183	241	344	613	344	541	408	828	548
Power Systems	246	267	382	735	424	442	493	961	455
EBIT Margins (%)									
Automation Products	11.3	13.0	9.9	15.0	11.3	12.1	14.4	14.9	10.0
Process Automation	8.4	14.5	9.7	10.6	7.5	12.8	13.2	14.4	14.3
Power Products	8.8	8.2	10.6	15.8	9.0	13.4	11.3	17.0	12.9
Power Systems	8.2	7.5	10.8	14.8	9.5	8.6	9.6	13.0	8.9

Source: Company

Continued strong order backlog

Order backlog as of March 2008 stood at Rs61.8b (up 45% YoY). During 1QCY08, order intake remained healthy at Rs26.9b (+34.7% YoY). Order intake is in line with our expectation of 31% CAGR during CY07-CY09. A large of the order intake from India is being driven by the power projects division, which includes investments in strengthening of transmission grid and automation products.

ORDER BOOK TREND (RS M)



Source: Company

TREND IN ORDER INTAKE (RS M)

	4QCY06	1QCY07	2QCY07	3QCY07	4QCY07	1QCY08
Order Intake	14,216	20,003	19,963	16,683	20,033	26,954
% Growth YoY	39.8	42.7	37.6	22.8	40.9	34.7

Source: Company

Valuation and View

We expect ABB India to report net profit of Rs6.6b (up 35% YoY) during CY08 and Rs8.8b (up 32.7% YoY) in CY09. The stock trades at PE of 37.9x CY08E and 28.5x CY09E. We arrive at target price of Rs1,034 based on P/E multiple of 25x CY09E. **Maintain Neutral.**

ABB, Zurich: Key takeaways from 1QCY08 concall

- ✎ ABB Group reported robust 1QCY08 results, with order intake at US\$10.9b (up 16% YoY in local currency), revenue at US\$8b (up 17% YoY in local currency). EBIT margin expanded to 17.0% in 1QCY08, up from 13.2% YoY. Excluding US\$85m mark to market gains on hedging transitions, EBIT margin stands at 16.0% (up ~280bp YoY). Net income during 1QCY08 stood at US\$1b, up 86.8% YoY in US\$ terms.
- ✎ In terms of order intake (local currency), Asia delivered highest growth at 30% YoY in 1QCY08, as against ME and Africa at 13%, America 7% and Europe 13%. Order book as of March 2008 stood at US\$26.8b (up 30% YoY). The management indicated that of the 17% YoY growth (in local currency) in order intake during 1QCY08, 60% of the increase was related to volumes and 40% from price increases. A large part of the price increase was due to higher input costs, particularly steel and copper.
- ✎ Outlook remained unchanged, with the management expecting power and automation businesses to grow at 15-20% and 10% respectively for CY08. Demand in Europe and North America is likely to remain healthy due to replacements, improving grid reliability and new grid connections. In the emerging markets, it would be driven by development of new infrastructure.
- ✎ In terms of order intake, India ranked 4th during 1QCY08, behind China, USA and Germany. During CY07, in terms of revenue, ABB India was the seventh largest contributor to ABB Group's business volumes and is expected to be soon among the Top Five. A large part of the order intake from India is being driven by the power projects division, which includes investments in strengthening of transmission grid and automation products.

ABB GROUP: QUARTERLY RESULT HIGHLIGHTS (US\$B)

	1QCY08	1QCY07	GROWTH (%)
Order Book	26.8	18.4	46.0
Order Intake	10.9	8.6	27.8
Revenues	8.0	6.2	28.6
EBIT (%)	17.0	13.2	380bp
Net Income	1003.0	537.0	86.8

* Includes US\$85m extraordinary item Source: Company

Outlook for CY08

ABB expects CY08 to be buoyant year with possible hiccups due to the US recession impacting growth in other regions. Segmental buoyancy is expected to remain strong with: (1) strong power activities across the globe; and (2) automation growth, driven by investments in emerging markets in sectors like minerals, oil and gas and power. US recession remains a concern with activities related to housing and the automotive sector dampening growth. ABB also expects some impact on margins during the second half of CY08. The company has guided for revenue and order growth of 15-20% in the power division and close to 10% in automation.

ABB: LONG TERM GROWTH TARGETS (%)

SEGMENT	REVENUE GROWTH		EBIT MARGIN	
	2007	2007-11	2007	2007-11
Power Products	27.0	10.0	16.3	12-17
Power Systems	20.0	11.0	8.4	6-10
Automation Products	18.0	8.0	17.1	14-19
Process Automation	10.0	8.0	10.6	9-14
Robotics	3.0	6.0	5.6	5-10
ABB Group	18.0	8-11	13.8	11-16

Source: Company

ABB GROUP: SEGMENTAL PERFORMANCE (US\$M)

	ORDER INTAKE			REVENUE			EBIT (%)		
	1QCY08	1QCY07	GR. (%)	1QCY08	1QCY07	GR. (%)	1QCY08	1QCY07	BP
Power Products	4,011	3,184	26.0	2,622	2,033	29.0	20.4	15.4	500
Power Systems	2,048	1,797	14.0	1,673	1,154	45.0	10.5	6.9	360
Automation Products	3,070	2,411	27.3	2,403	1,898	26.6	19.0	16.3	270
Process Automation	2,555	1,741	46.8	1,749	1,383	26.5	12.9	10.1	280
Robotics	456	378	20.6	387	305	26.9	6.5	4.9	160

Source: Company

ABB: an investment profile

Company description

ABB is a worldwide leader in power transmission and distribution and process automation space. ABB India is 52% 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 only 10% to the total revenues.

Key investment arguments

- ✍ Order backlog at end CY07 stands at Rs50.2b (+49% YoY)
- ✍ Increasing investments in country's power sector, metals and oil and gas sector, which are drivers for ABB
- ✍ Technology leadership due to strong parentage

Key investment risks

- ✍ ABB is a play on infrastructure and industrial capex. Any slowdown on any of these sides would dampen the short term growth of the company.

Recent developments

- ✍ Strong order flow of Rs26b (+35% YoY)

Valuation and view

- ✍ We expect ABB India to report net profit of Rs6.6b (up 35% YoY) in CY08 and Rs8.8b (up 32.7% YoY) in CY09. The stock trades at a P/E of 37.9x CY08E and 28.5x CY09E. We arrive at a target price of Rs1,034 based on PE multiple of 25x CY09E, a 25% premium to BHEL. Maintain **Neutral**.

Sector view

- ✍ Industrial and infrastructure capex is likely to continue in the medium term, thus benefiting companies like ABB.

COMPARATIVE VALUATIONS

		ABB*	SIEMENS**	BHEL
P/E (x)	FY08E	49.8	32.8	32.8
	FY09E	37.0	26.4	24.1
P/BV (x)	FY08E	15.0	5.3	8.9
	FY09E	11.0	4.5	6.9
EV/Sales (x)	FY08E	4.0	1.0	4.4
	FY09E	3.0	0.8	3.2
EV/EBIDTA (x)	FY08E	32.6	15.6	20.9
	FY09E	23.9	10.3	14.8

* December Ending ; ** September Ending

SHAREHOLDING PATTERN (%)

	MAR-08	DEC-07	MAR-07
Promoter	52.1	52.1	52.1
Domestic Inst	17.8	16.4	17.6
Foreign	16.0	17.5	16.9
Others	14.1	13.9	13.4

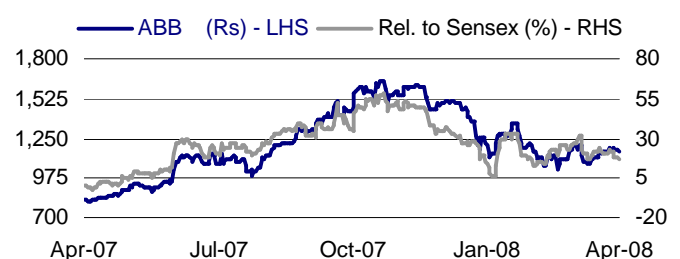
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
CY08	31.2	33.5	-6.8
CY09	41.3	47.0	-12.1

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
1,153	1,034	-	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(Rs Million)				
Y/E DECEMBER	2005	2006	2007	2008E	2009E	
Net Sales	29,631	42,740	59,303	78,214	103,041	
Change (%)	31.1	44.2	38.8	31.9	31.7	
Raw Materials	8,759	12,655	17,709	23,073	30,139	
Staff Cost	1,784	2,414	3,018	3,772	4,715	
Other Mfg. Expenses	12,941	19,301	26,697	35,079	45,956	
Selling Expenses	2,231	2,787	3,804	5,084	7,316	
Admin. & Other Expenses	734	816	1,057	1,408	1,752	
EBITDA	3,182	4,767	7,246	9,798	13,162	
% of Net Sales	10.7	11.2	12.2	12.5	12.8	
Depreciation	231	265	324	419	488	
Interest	66	7	68	80	85	
Other Income	511	737	708	900	940	
Extra-ordinary Items (net)	0	0	0	0	0	
PBT	3,395	5,232	7,562	10,199	13,530	
Tax	1,208	1,829	2,648	3,595	4,769	
Rate (%)	35.6	35.0	35.0	35.3	35.3	
PAT	2,187	3,403	4,908	6,604	8,761	
Adjusted PAT	2,187	3,403	4,908	6,604	8,761	
Change (%)	44.0	55.6	44.2	34.5	32.7	

BALANCE SHEET		(Rs Million)				
Y/E DECEMBER	2005	2006	2007E	2008E	2009E	
Share Capital	424	424	424	424	424	
Reserves	8,617	11,535	15,876	21,718	29,467	
Networth	9,041	11,958	16,300	22,141	29,891	
Loans	27	15	0	0	0	
Net Deferred Tax Liability	84	165	149	134	120	
Capital Employed	9,153	12,139	16,449	22,275	30,011	
Gross Fixed Assets	4,142	5,145	6,883	8,568	9,753	
Less: Depreciation	1,875	2,074	2,399	2,818	3,306	
Net Fixed Assets	2,266	3,071	4,485	5,750	6,447	
Capital WIP	384	246	80	80	80	
Investments	872	774	774	774	774	
Curr. Assets	19,871	27,967	40,342	54,213	73,524	
Inventory	2,016	3,547	5,382	7,071	9,316	
Debtors	10,293	15,703	22,831	31,071	40,934	
Cash & Bank Balance	4,010	5,464	7,237	9,641	14,805	
Loans & Advances	3,553	3,253	4,892	6,429	8,469	
Current Liab. & Prov.	14,241	19,919	29,232	38,541	50,814	
Creditors	13,729	19,363	26,093	34,286	45,169	
Other Liabilities	0	0	0	0	0	
Provisions	512	556	3,139	4,256	5,645	
Net Current Assets	5,630	8,048	11,111	15,671	22,710	
Application of Funds	9,153	12,139	16,449	22,275	30,011	

E: MOSTimates

RATIOS						
Y/E DECEMBER	2005	2006	2007	2008E	2009E	
Basic (Rs)						
EPS	10.3	16.1	23.2	31.2	41.3	
Growth	44.0	55.6	44.2	34.5	32.7	
Cash EPS	11.4	17.3	24.7	33.1	43.6	
Book Value	42.7	56.4	76.9	104.5	141.1	
DPS	1.3	1.9	2.7	3.6	4.8	
Payout (incl. Div. Tax.)	10.0	10.0	10.0	10.0	10.0	
Valuation (x)						
P/E		71.8	49.8	37.0	27.9	
Cash P/E		66.6	46.7	34.8	26.4	
EV/EBITDA		50.0	32.6	23.9	17.4	
EV/Sales		5.6	4.0	3.0	2.2	
Price/Book Value		20.4	15.0	11.0	8.2	
Dividend Yield (%)		0.2	0.2	0.3	0.4	
Profitability Ratios (%)						
RoE	26.9	32.4	34.7	34.4	33.7	
RoCE	41.8	49.2	53.3	53.1	52.1	
Turnover Ratios						
Debtors (Days)	127	134	141	145	145	
Inventory (Days)	84	102	111	112	113	
Creditors (Days)	169	165	161	160	160	
Asset Turnover (x)	3.2	3.5	3.6	3.5	3.4	
Leverage Ratio						
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	

CASH FLOW STATEMENT		(Rs Million)				
Y/E DECEMBER	2005	2006	2007	2008E	2009E	
PBT before EO Items	3,395	5,232	7,556	10,199	13,530	
Add : Depreciation	231	265	325	419	488	
Interest	66	7	68	80	85	
Less : Direct taxes paid	1,208	1,829	2,648	3,595	4,769	
(Inc)/Dec in WC	-1,414	-962	-1,290	-2,156	-1,875	
CF from operations	1,071	2,713	4,011	4,947	7,458	
EO Income	0	0	0	0	0	
CF from Oper. incl. EO lte	1,071	2,713	4,011	4,947	7,458	
(Inc)/Dec in FA	-933	-932	-1,572	-1,685	-1,185	
(Pur)/Sale of Investments	198	98	0	0	0	
CF from investments	-735	-834	-1,572	-1,685	-1,185	
(Inc)/Dec in Networth	-171	-12	-17	-15	-13	
(Inc)/Dec in Debt	12	-12	-15	0	0	
Less : Interest Paid	66	7	68	80	85	
Dividend Paid	269	393	567	762	1,011	
CF from Fin. Activity	-494	-424	-667	-857	-1,110	
Inc/Dec of Cash	-158	1,455	1,772	2,404	5,164	
Add: Beginning Balance	4,168	4,010	5,464	7,237	9,641	
Closing Balance	4,010	5,464	7,237	9,641	14,805	

N O T E S



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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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