



**SELL**

<b>Price</b>	<b>Rs768</b>
<b>Target Price</b>	<b>Rs559</b>
<b>Investment Period</b>	<b>12 months</b>

<b>Stock Info</b>	
Sector	Capital Goods
Market Cap (Rs cr)	16,271
Beta	0.8
52 WK High / Low	834 / 344
Avg. Daily Volume	105,639
Face Value (Rs)	2
BSE Sensex	15,896
Nifty	4,712
BSE Code	500002
NSE Code	ABB
Reuters Code	ABB.BO
Bloomberg Code	ABB@IN

<b>Shareholding Pattern (%)</b>	
Promoters	52.1
MF/Banks/Indian FIs	24.5
FII/ NRIs/ OCBs	12.2
Indian Public/others	11.2

<b>Abs.</b>	<b>3m</b>	<b>1yr</b>	<b>3yr</b>
Sensex (%)	3.3	75.8	22.1
ABB (%)	11.8	42.3	5.7

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**Performance Highlights**

- **De-growth in Top-line; Power Systems Segment the major culprit:** ABB India posted a 4.3% yoy de-growth in Top-line to Rs1,454cr (Rs1,519cr) for 3QCY2009 on account of the slower-than-expected execution achieved by the company over the quarter. Though weakness was witnessed in most of the ABB's primary business segments, Sales were majorly impacted by the poor performance of the Power Systems Segment, which registered sharp Revenue de-growth of 25.4% during the quarter. Nonetheless, some revival was seen in the Automation Products Segment, which witnessed Revenue growth of 7.4% to Rs448cr (Rs417cr). For 9MCY2009, the company posted 6.8% yoy de-growth in Top-line to Rs4,352cr (Rs4,671cr).
- **Systems related segments continue to put pressure on EBITDA Margins:** On the Operating front, the company reported a dip in the quarterly EBITDA Margins by 46bp yoy to 8.4% (8.9%). Though the products related segment (Power Products up 270bp and Automation Products up 617bp) witnessed a margin expansion, it was more than offset by the sharp fall in margins of both the systems related segments (Power Systems down 890bp and Process Automation down 521bp). Owing to the fall in margins, EBITDA fell 9.3% yoy to Rs122cr (Rs135cr) during the quarter. For 9MCY2009 too, the company posted a 25.1% yoy fall in EBITDA to Rs378cr (Rs504cr).
- **Disappointing Bottom-line:** Depreciation cost increased 37.1% to Rs13cr (Rs9cr), while Other Income fell 60.2% to Rs16cr (Rs40cr). Consequently, Net Profit during the quarter fell 20.7% to Rs83cr (Rs105cr), which was again well below our estimates. For 9MCY2009, the company posted 30.8% yoy fall in Bottom-line to Rs245cr (Rs354cr).

**Key Financials**

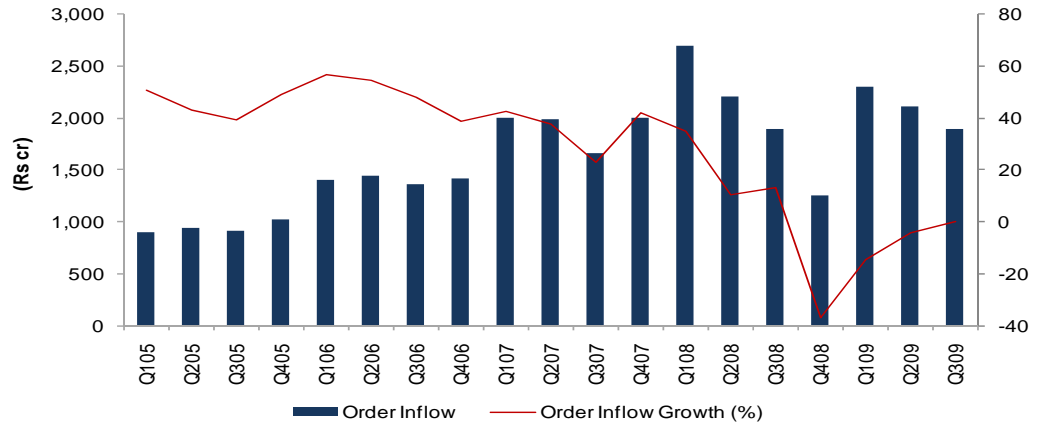
Y/E Dec ( Rs cr)	CY2007	CY2008	CY2009E	CY2010E
<b>Net Sales</b>	<b>5,930</b>	<b>6,837</b>	<b>6,488</b>	<b>7,666</b>
% chg	38.8	15.3	(5.1)	18.2
<b>Adj Net Profit</b>	<b>492</b>	<b>547</b>	<b>404</b>	<b>538</b>
% chg	44.5	11.3	(26.1)	33.2
EBITDA (%)	12.3	11.3	9.7	10.4
<b>EPS (Rs)</b>	<b>23.2</b>	<b>25.8</b>	<b>19.1</b>	<b>25.4</b>
P/E (x)	33.1	29.7	40.2	30.2
P/BV (x)	10.1	7.7	6.6	5.5
RoE (%)	35.2	29.5	17.7	20.0
RoCE (%)	37.5	33.0	19.9	21.8
EV/Sales (x)	2.6	2.3	2.3	2.0
EV/EBITDA (x)	21.4	20.7	24.1	19.1

Source: Company, Angel Research

**Order inflows – key to watch**

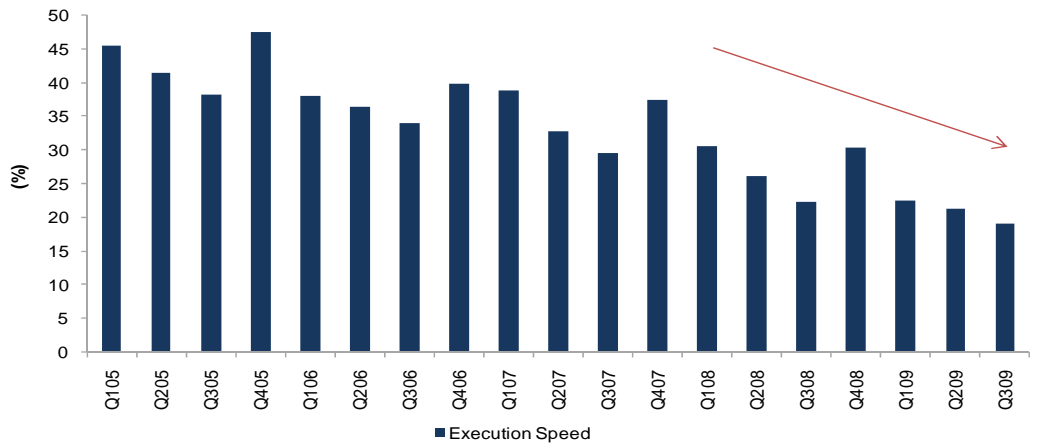
Order inflows continue to be a critical factor for the company, which though were flattish yoy to Rs1,893cr (Rs1,889cr), were down 10.3% qoq. For 1HCY2009, the cumulative order inflows were down 7.1% yoy to Rs6,308cr (Rs6,793cr). The Order backlog during the quarter ended higher by 12.9% yoy to Rs8,023cr (Rs7,105cr) and 5.3% higher qoq.

**Exhibit 1: Order Inflow growth (yoy)**



Source: Company, Angel Research

**Exhibit 2: Slowing Execution Speed**



Source: Company, Angel Research

**Exhibit 3: Segment-wise Performance**

Y/E Dec (Rs cr)	3QCY2009	3QCY2008	% chg	9MCY2009	9MCY2008	% chg
<b>Revenues</b>						
Power Systems	381.3	510.9	(25.4)	1,292.7	1,555.2	(16.9)
Power Products	473.4	492.1	(3.8)	1,400.9	1,431.1	(2.1)
Process Automation	240.2	247.4	(2.9)	767.9	827.1	(7.1)
Automation Products	447.8	416.9	7.4	1,236.5	1,207.2	2.4
Others	10.3	21.8	(52.6)	44.2	60.4	(26.8)
<b>EBIT</b>						
Power Systems	4.6	51.7	(91.1)	45.9	136.5	(66.3)
Power Products	56.5	45.4	24.3	178.5	163.5	9.1
Process Automation	16.9	30.3	(44.3)	77.4	103.8	(25.4)
Automation Products	60.3	30.4	98.3	110.9	128.7	(13.8)
Others	0.2	1.1	(78.1)	1.7	3.9	(56.1)
<b>EBIT Margin (%)</b>						
Power Systems	1.2	10.1		3.6	8.8	
Power Products	11.9	9.2		12.7	11.4	
Process Automation	7.0	12.2		10.1	12.6	
Automation Products	13.5	7.3		9.0	10.7	
Others	2.4	5.1		3.9	6.5	

Source: Company, Angel Research

**Exhibit 4: 3QCY2009 Performance**

Y/E Dec (Rs cr)	3QCY2009	3QCY2008	% chg	9MCY2009	9MCY2008	% chg
<b>Net Sales</b>	<b>1,453.8</b>	<b>1,519.1</b>	<b>(4.3)</b>	<b>4,352.0</b>	<b>4,670.7</b>	<b>(6.8)</b>
Raw Material	1,062.8	1,111.0	(4.3)	3,104.9	3,367.7	(7.8)
(% of Net Sales)	73.1	73.1		71.3	72.1	
Employee Cost	103.9	101.8	2.0	301.0	300.3	0.2
(% of Net Sales)	7.1	6.7		6.9	6.4	
Other Expenses	164.8	171.5	(3.9)	568.5	498.7	14.0
(% of Net Sales)	11.3	11.3		13.1	10.7	
<b>Total Expenditure</b>	<b>1,331.5</b>	<b>1,384.3</b>	<b>(3.8)</b>	<b>3,974.4</b>	<b>4,166.6</b>	<b>(4.6)</b>
<b>EBITDA</b>	<b>122.3</b>	<b>134.8</b>	<b>(9.3)</b>	<b>377.6</b>	<b>504.1</b>	<b>(25.1)</b>
EBITDA (%)	8.4	8.9		8.7	10.8	
Interest	4.4	6.7	(34.2)	22.8	16.6	36.8
Depreciation	12.7	9.2	37.1	36.0	26.4	36.5
Other Income	15.9	39.9	(60.2)	51.0	79.8	(36.0)
<b>Profit before Tax</b>	<b>121.2</b>	<b>158.8</b>	<b>(23.7)</b>	<b>369.8</b>	<b>540.8</b>	<b>(31.6)</b>
(% of Net Sales)	8.3	10.5		8.5	11.6	
Total Tax	38.1	54.0	(29.5)	124.8	186.5	(33.1)
(% of PBT)	31.4	34.0		33.7	34.5	
<b>Reported PAT</b>	<b>83.1</b>	<b>104.8</b>	<b>(20.7)</b>	<b>245.0</b>	<b>354.3</b>	<b>(30.8)</b>
(% of Net Sales)	5.7	6.9		5.6	7.6	

Source: Company, Angel Research

### **Outlook and Valuation**

The company has been bearing the brunt of slowdown reporting a dismal set of numbers since the past several quarters. Although the broader economic scenario is showing some signs of improvement, we believe that growth pressures will persist in the near term and will take a while for things to pick up dramatically. Besides, heightened competitive pressures in the market on account of price undercutting by players would also continue to pressurize margins in the near term.

At the current price of Rs768, the stock is quoting at premium valuations of P/E of 40.2x and 30.2x CY2009E and CY2010E EPS respectively. **Given the over-stretched valuations, we expect the stock to underperform and maintain our Sell recommendation on the stock, with a Target Price of Rs559.**



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<b>Ratings (Returns) :</b>	<b>Buy (Upside &gt; 15%)</b> <b>Reduce (Downside upto 15%)</b>	<b>Accumulate (Upside upto 15%)</b> <b>Sell (Downside &gt; 15%)</b>	<b>Neutral (5 to -5%)</b>
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