

BSE SENSEX 16,480	S&P CNX 4,975	CMP: INR747	TP: INR640	Neutral								
Bloomberg	ABB IN	Year	Net Sales	PAT	EPS	EPS	P/E	P/BV	RoE	RoCE	EV/	EV/
Equity Shares (m)	211.9	End	(INR m)	(INR m)	(INR)	Gr (%)	(X)	(X)	(%)	(%)	Sales	EBITDA
52-Week Range (INR)	915/541	12/10A	62,871	632	3.0	-82.2	250.4	6.5	2.6	3.1	2.4	181.8
1,6,12 Rel. Perf. (%)	-4/11/-4	12/11A	73,703	1,845	8.7	191.9	85.8	6.2	7.4	8.1	2.1	54.8
M.Cap. (INR b)	158.3	12/12E	83,910	3,466	16.4	87.8	45.7	5.7	13.0	12.9	1.8	28.5
M.Cap. (USD b)	2.9	12/13E	97,254	5,219	24.6	50.5	30.3	5.0	17.5	16.8	1.6	19.2

- **ABB India reports mixed performance in 1QCY12:** ABB India reported mixed 1QCY12 performance with flat YoY revenues, impacted by deferment of project bookings and focus on tight working capital management. EBITDA margins were impacted by forex losses of INR327m (largely MTM losses on derivative contracts), adjusted for which net profit was up 35% YoY, broadly in line with our estimates.
- **Profitability shows improvement while order momentum moderates:** EBITDA margin, adjusting for forex losses, was up 150bp YoY and the improvement was driven by Power Systems business which showed turnaround (EBIT margins at 5%) after reporting losses since last eight quarters. 1QCY12 saw moderation in order intake momentum, down 4% YoY, impacted by slowdown in industrial sector (largely process automation) while power segment posted strong double digit growth.
- **Management re-iterates its confidence in the Indian market; will continue to invest:** Although the company currently going through a challenging phase due to macro concerns and certain company specific issues, the management re-emphasized its confidence in the underlying demand in the Indian market and the company's growth prospects. ABB has nearly trebled its gross fixed assets to INR15b (Dec 2011) over the past 5 years, and the management reiterated plans to invest in capacities - recently the company announced plans to invest INR2.5b for setting up power products facility.
- **Exports and Services show robust growth:** The quarter saw significant traction in exports (~10% of sales) driven by Middle East and Africa, particularly in Power segment. Services business (~10% of sales) has also shown strong performance and this continues to be an important focus area.
- **Valuation and view:** We believe 1QCY12 is the first sign of profitability improvement as (1) ABB has largely exited RE works, and (2) the benefits of cost reduction measures have started to flow in. We have cut our earnings estimate by 4%/11% for CY12/13 driven by slower execution. Valuations are rich, and we remain **Neutral** on the stock.

Quarterly Performance Y/E December	(INR Million)									
	CY11				CY12				CY11	CY12E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	17,960	17,125	17,435	21,999	17,903	19,719	19,719	26,569	74,742	83,910
Change (%)	21.7	18.4	24.8	6.2	(0.3)	15.1	13.1	20.8	17.5	13.8
EBITDA	1,016	855	666	1,080	1,302	1,252	1,339	1,467	3,618	5,360
Change (%)	356.2	70.8	93.3	230.5	28.1	46.4	100.9	35.8	131.9	48.2
As % of Sales	5.7	5.0	3.8	4.9	7.3	6.3	6.8	5.5	4.8	6.4
Depreciation	144	264	263	124	223	240	260	271	795	995
Interest	40	67	71	129	54	43	46	56	307	200
Other Income	45	65	38	14	19	59	43	850	162	971
PBT	877	589	371	840	716	1,027	1,076	2,316	2,677	5,135
Tax	282	202	149	199	240	329	344	756	832	1,669
Effective Tax Rate (%)	32.1	34.3	40.2	23.7	33.5	32.0	32.0	32.6	31.1	32.5
Reputed PAT	595	387	222	641	476	698	732	1,560	1,845	3,466
Adj. PAT	595	387	222	641	803	698	732	1,233	1,845	3,466
Change (%)	796.8	1.1	92.6	845.3	34.9	80.2	230.2	92.4	191.8	87.9

E: MOSL Estimates

Satyam Agarwal (AgarwalS@MotilalOswal.com) ; +91 22 3982 5410

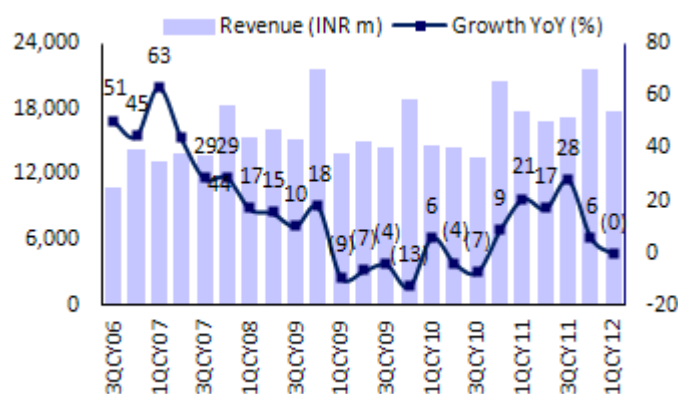
Deepak Narnolia (Deepak.Narnolia@MotilalOswal.com); +91 22 3029 5126

ABB INDIA 1QCY12: Revenues below estimate, margins improve; PAT broadly in-line; Cutting est 4-11%; Neutral

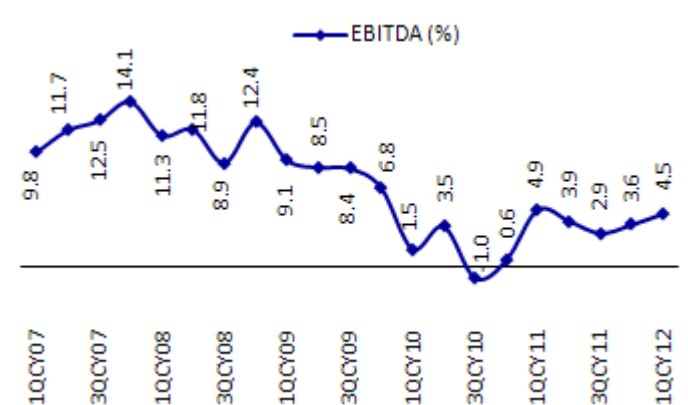
ABB India reported mixed 1QCY12 performance with flat YoY revenues, impacted by deferment of project bookings and focus on tight working capital management. EBITDA margins were impacted by forex losses of INR327m (largely MTM losses on derivative contracts), adjusted for which net profit was up 35% YoY, broadly in line with our estimates.

- EBITDA margin, adjusting for forex losses, was up 150bp YoY and the improvement was driven by Power Systems business which showed turnaround (EBIT margins at 5%) after reporting losses since last eight quarters. Supply chain initiatives started ~5 quarters back have started yielding results with material costs declining from ~74-75% of sales to 72% now, and the management believes that this improvement is sustainable.
- 1QCY12 saw moderation in order intake momentum, down 4% YoY, impacted by slowdown in industrial sector (largely process automation) while power segment posted strong double digit growth. The unexecuted orders pertaining to rural electrification business stood at INR250m which has remained unchanged from 4QFY11. The company is yet to decide whether it will execute the remaining portion of the orders.
- In the conference call, the management highlighted that the company is going through a challenging phase due to current macro concerns; however, it re-emphasized its confidence in the underlying demand in the Indian market. Industrial demand continues to be subdued impacted by slowdown in capex cycle due to lack of confidence in customers and over-capacity in certain segments. Pricing levels have started to stabilize with pace of decline moderating.
- ABB has nearly trebled its gross fixed assets to INR15b (Dec 2011) over the past 5 years, and the management reiterated plans to invest in capacities - recently the company announced plans to invest INR2.5b for setting up power products facility.
- The quarter saw significant traction in exports (~10% of sales) driven by Middle East and Africa, particularly in Power segment. Services business (~10% of sales) has also shown strong performance and this continues to be an important focus area.
- Valuation and view: We believe 1QCY12 is the first sign of profitability improvement as (1) ABB has largely exited RE works, and (2) the benefits of cost reduction measures have started to flow in. We have cut our earnings estimate by 4%/11% for CY12/13 driven by slower execution. Valuations are rich, and we remain **Neutral** on the stock.

Revenues impacted by deferment of project booking

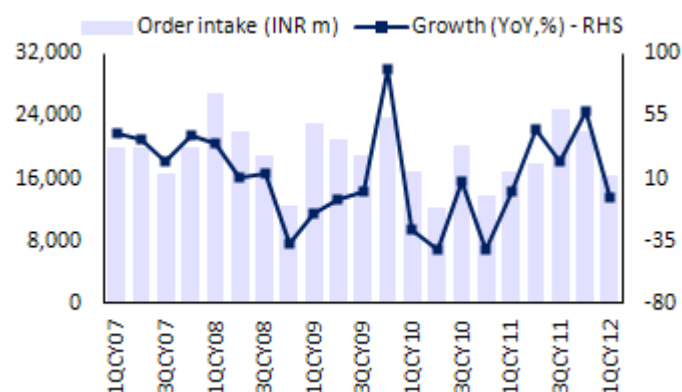


Margins impacted by forex losses; Ex forex shows meaningful improvement

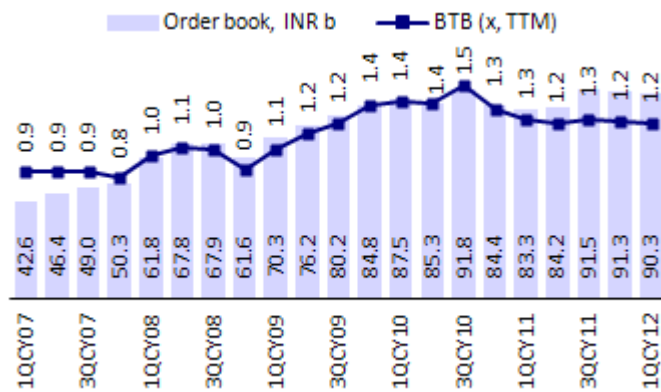


Source: Company, MOSL

Order intake momentum moderated due to slow industrial demand



BTB of 1.2x TTM revenues, range bound for past several quarters



Source: Company, MOSL

Segmental Analysis (INR m)

	1QCY10	2QCY10	3QCY10	4QCY10	1QCY11	2QCY11	3QCY11	4QCY11	1QCY12
Discrete Automation and Motion									
Revenue	3,960	3,649	3,445	4,880	4,174	4,211	4,344	5,271	4,141
Growth YoY (%)	28.4	14.7	-0.4	12.3	5.4	15.4	26.1	8.0	-0.8
EBIT	106	461	484	271	509	320	459	779	432
EBIT Margin (%)	2.7	12.6	14.0	5.6	12.2	7.6	10.6	14.8	10.4
Low Voltage Products									
Revenue	973	1,034	1,039	1,440	1,297	1,275	1,391	1,449	1,447
Growth YoY (%)	25.6	25.7	4.4	16.8	33.3	23.3	33.8	0.7	11.5
EBIT	-7	-3	40	-12	104	125	29	83	82
EBIT Margin (%)	-0.8	-0.3	3.9	-0.8	8.0	9.8	2.1	5.7	5.7
Process Automation									
Revenue	2,866	2,259	2,180	4,582	3,298	2,937	2,781	4,255	3,039
Growth YoY (%)	14.0	-27.8	-16.1	-2.2	15.1	30.0	27.5	-7.1	-7.9
EBIT	303	208	-41	346	217	150	64	-54	83
EBIT Margin (%)	10.6	9.2	(1.9)	7.6	6.6	5.1	2.3	(1.3)	2.7
Power Products									
Revenue	4,318	4,441	3,992	5,404	4,400	4,688	4,976	5,952	4,580
Growth YoY (%)	1.4	-11.5	-15.7	-8.8	1.9	5.6	24.6	10.1	4.1
EBIT	359	284	-28	204	214	220	164	399	107
EBIT Margin (%)	8.3	6.4	(0.7)	3.8	4.9	4.7	3.3	6.7	2.3
Power Systems									
Revenue	3,825	4,173	3,919	6,349	5,723	5,077	5,452	7,314	5,689
Growth YoY (%)	-14.5	-10.1	2.8	48.9	49.6	21.7	39.1	15.2	-0.6
EBIT	-485	-212	-28	-381	17	-35	23	-14	282
EBIT Margin (%)	(12.7)	(5.1)	(0.7)	(6.0)	0.3	-0.7	0.4	-0.2	5.0

Source: Company/MOSL

ABB: an investment profile

Company description

ABB is a worldwide leader in power transmission and distribution and process automation space. ABB India is 75% 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 ~10% to the total revenues.

Key investment arguments

- Technology leadership due to strong parentage. ABB is a worldwide leader in power transmission and distribution and process automation space. The company is best placed to benefit from revival of industrial capex cycle.
- Profitability should show significant improvement in CY12 on the back of strong cost reduction measures which the company has taken.

- Current order backlog at INR90b, book to bill ratio of 1.2x TTM revenues provides reasonable visibility for CY12.

Key investment risks

- Continued pressure on profitability across business segments. ABB India performance continue to be impacted by provisions towards exit costs on rural electrification projects, increased competitive intensity, execution headwinds, pricing pressures, etc.
- Loss of market share to Indian and foreign players in a growing T&D market in the country as ABB's TTM order intake declines 5% YoY.

Valuation and view

- Profitability should show significant improvement in CY12 on the back of strong cost reduction measures which the company has taken. We expect profitability to improve during CY12E with most of RE orders already executed and benefits of the cost reduction measures flowing in coming quarters. Valuations are rich, and we remain **Neutral** on the stock.

Sector view

- We remain **Neutral** on the sector.

Comparative valuations

		ABB	Siemens	Crompton
P/E (x)	FY13E	45.7	34.8	11.4
	FY14E	30.3	24.7	9.5
P/BV (x)	FY13E	5.7	6.4	1.9
	FY14E	5.0	5.2	1.6
EV/Sales (x)	FY13E	1.8	2.0	0.6
	FY14E	1.6	1.6	0.5
EV/EBITDA (x)	FY13E	28.5	20.9	6.4
	FY14E	19.2	14.0	5.1

* For ABB, FY13 is CY12 and FY14 is CY13

Shareholding Pattern (%)

	Mar-12	Dec-11	Mar-11
Promoter	75.0	75.0	75.0
Domestic Inst	12.9	12.8	12.3
Foreign	3.4	3.2	3.3
Others	8.8	9.0	9.4

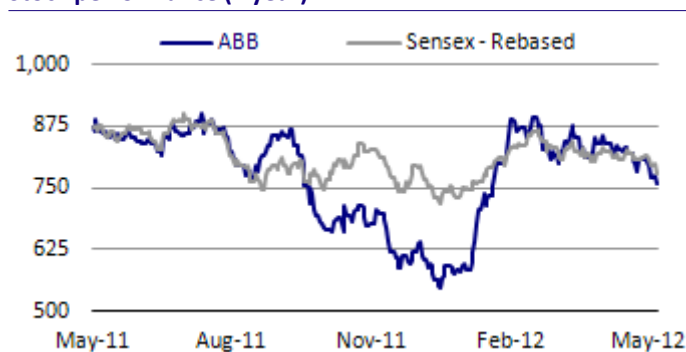
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
CY12	16.4	15.6	5.3
CY13	24.6	21.6	14.1

Target Price and Recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
747	640	-14.3	Neutral

Stock performance (1 year)



Financials and Valuation

Income Statement		(INR Million)				
Y/E December	2009	2010	2011	2012E	2013E	
Net Sales	62,372	62,871	73,703	83,910	97,254	
Change (%)	-8.8	0.8	17.2	13.8	15.9	
Raw Materials	21,970	26,166	28,412	30,208	35,011	
Staff Cost	3,892	4,901	5,868	6,455	7,100	
Other Mfg. Expense	23,801	22,455	27,189	31,466	36,470	
Selling Expenses	5,564	7,309	7,811	8,743	9,142	
Admin. & Other Exp	1,855	1,202	1,591	1,678	1,653	
EBITDA	5,290	838	2,831	5,360	7,877	
% of Net Sales	8.5	1.3	3.8	6.4	8.1	
Depreciation	485	517	795	995	1,092	
Interest	256	174	307	200	200	
Other Income	726	855	949	971	1,090	
PBT	5,274	1,002	2,677	5,135	7,674	
Tax	1,728	370	832	1,669	2,456	
Rate (%)	32.8	36.9	31.1	32.5	32.0	
PAT	3,546	632	1,845	3,466	5,219	
Adjusted PAT	3,546	632	1,845	3,466	5,219	
Change (%)	-33.4	-82.2	191.9	87.8	50.5	

Balance Sheet		(INR Million)				
Y/E December	2009	2010	2011	2012E	2013E	
Share Capital	424	424	424	424	424	
Reserves	23,814	23,813	24,921	27,387	31,401	
Net Worth	24,237	24,237	25,345	27,811	31,825	
Capital Employed	24,237	24,191	25,121	27,811	31,825	
Gross Fixed Assets	8,792	9,977	14,618	15,988	17,623	
Less: Depreciation	2,059	2,318	2,935	3,930	4,657	
Net Fixed Assets	6,733	7,660	11,683	12,058	12,967	
Capital WIP	1,163	577	839	700	700	
Investments	169	168	507	507	507	
Curr. Assets	47,493	49,262	49,600	58,046	68,213	
Inventory	7,294	6,979	9,255	8,736	10,125	
Debtors	28,577	29,260	30,825	35,633	41,300	
Cash & Bank Balan	5,241	5,871	2,644	4,942	6,663	
Loans & Advances	6,380	7,153	6,876	8,736	10,125	
Current Liab. & Prov.	31,320	33,476	37,509	43,500	50,562	
Creditors	29,869	31,175	35,178	42,300	49,027	
Other Liabilities	0	454	0	0	0	
Provisions	1,450	1,846	2,331	1,200	1,535	
Net Current Assets	16,173	15,786	12,092	14,546	17,651	
Application of Funds	24,238	24,191	25,121	27,811	31,825	

E: MOSL Estimates

Ratios						
Y/E December	2009	2010	2011	2012E	2013E	
Basic (INR)						
EPS	16.7	3.0	8.7	16.4	24.6	
Growth	-33.4	-82.2	191.9	87.8	50.5	
Cash EPS	19.0	5.4	12.5	21.1	29.8	
Book Value	114.4	114.4	119.6	131.2	150.2	
DPS	2.3	2.3	3.5	4.7	5.7	
Payout (incl. Div.Ta)	1,398.2	7,844.4	4,012.7	25.0	20.0	
Valuation (x)						
P/E		250.4	85.8	45.7	30.3	
Cash P/E		137.8	59.9	35.5	25.1	
EV/EBITDA		181.8	54.8	28.5	19.2	
EV/Sales		2.4	2.1	1.8	1.6	
Price/Book Value		6.5	6.2	5.7	5.0	
Dividend Yield (%)		0.3	0.5	0.6	0.8	
Profitability Ratios (%)						
RoE	15.6	2.6	7.4	13.0	17.5	
RoCE	15.3	3.1	8.1	12.9	16.8	
Turnover Ratios						
Debtors (Days)	167	170	153	155	155	
Inventory (Days)	43	41	46	38	38	
Creditors. (Days)	175	181	174	184	184	
Asset Turnover (x)	2.6	2.6	2.9	3.0	3.1	
Leverage Ratio						
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	

Cash Flow Statement		(INR Million)				
Y/E December	2009	2010	2011	2012E	2013E	
PBT before EO Items	5,274	1,002	2,677	5,135	7,674	
Add : Depreciation	485	517	795	995	1,092	
Interest	256	174	307	200	200	
Less : Direct taxes	1,728	370	832	1,669	2,456	
(Inc)/Dec in WC	-631	1,017	466	-156	-1,384	
CF from operations	3,656	2,340	3,414	4,505	5,127	
(Inc)/Dec in FA	-1,585	-858	-5,081	-1,231	-2,001	
(Pur)/Sale of Inves	442	1	-339	0	0	
CF from investment	-1,143	-857	-5,420	-1,231	-2,001	
(Inc)/Dec in Net W	-3	-183	-175	224	0	
Less : Interest Paic	256	174	307	200	200	
Dividend Pai	496	496	740	1,001	1,205	
CF from Fin. Activity	-755	-852	-1,222	-977	-1,405	
Inc/Dec of Cash	1,759	631	-3,228	2,298	1,721	
Add: Beginning Ba	3,482	5,241	5,871	2,644	4,942	
Closing Balance	5,241	5,873	2,643	4,941	6,663	

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Motilal Oswal Securities Ltd

3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motilaloswal.com