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ABB

2QCY2009 Result Update

SELL

Price	**Rs699**
Target Price	**Rs499**
Investment Period	**12 months**

Stock Info

Sector	Capital Goods
Market Cap (Rs cr)	14,812
Beta	0.8
52 WK High / Low	947/344
Avg. Daily Volume	113532
Face Value (Rs)	2
BSE Sensex	15,670
Nifty	4,636
BSE Code	500002
NSE Code	ABB
Reuters Code	ABB.BO
Bloomberg Code	ABB@IN

Shareholding Pattern (%)

Promoters	52.1
MF/Banks/Indian FIs	24.0
FII/ NRIs/ OCBs	12.6
Indian Public/others	11.3

Abs.	**3m**	**1yr**	**3yr**
Sensex (%)	37.4	9.2	45.9
ABB (%)	43.4	(9.2)	44.6

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Performance Highlights

- **De-growth in the Top-line:** ABB India posted a 6.9% yoy de-growth in Top-line to Rs1,505cr (Rs1,616cr) for 2QCY2009, which was well below our expectations. The primary reason for the same was the slower-than-expected execution achieved by the company over the quarter. Though the weakness was witnessed in all the ABB's Primary business segments, Sales was mainly impacted by the poor performance of Power-related segments, both of which registered de-growth during the quarter. For 1HCY2009, the company posted 8.0% yoy de-growth in Top-line to Rs2,898cr (Rs3,152cr).

- **EBITDA Margins take a sharp hit:** On the Operating front, the company reported a sharp decline in the quarterly EBITDA Margins by 348bp yoy to 8.5% (12.0%) primarily due to higher Other Expenses, which increased by 311bp to 13.5% (10.3%, as a % of Net Sales). Though the company's raw material costs decreased slightly by 56bp to 70.8% (71.4%), it could only partially offset the Margin compression due to higher Other Expenses. Owing to the fall in Margins, EBITDA de-grew by 33.9% yoy to Rs128cr (Rs194cr) during the quarter. For 1HCY2009 too, the company posted a 30.9% yoy de-growth in EBITDA to Rs255cr (Rs369cr).

- **Disappointing Bottom-line:** Interest cost increased by 78.7% to Rs8cr (Rs4cr) while Depreciation was up 41.7%. Consequently, Net Profit during the quarter de-grew 36.6% to Rs84cr (Rs132cr), which was again well below our estimates. For 1HCY2009, the company posted 35.1% yoy de-growth in Bottom-line to Rs162cr (Rs250cr).

Key Financials

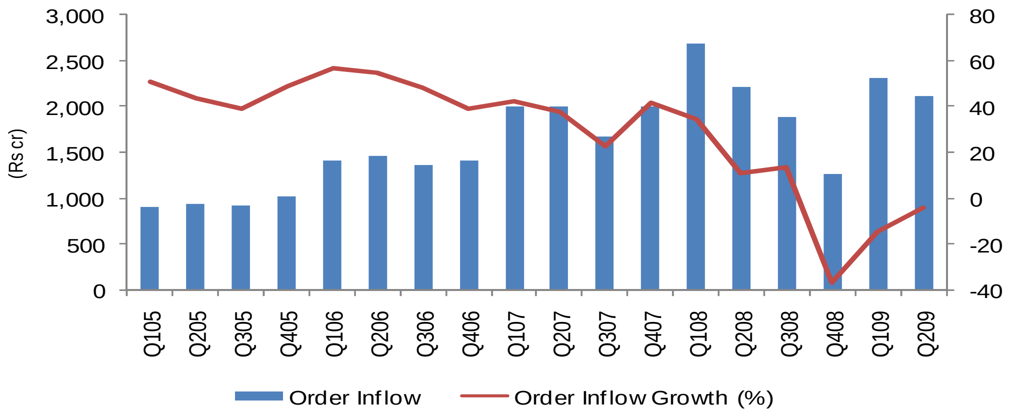
Y/E Dec (Rs cr)	**CY2007**	**CY2008**	**CY2009E**	**CY2010E**
Net Sales	**5,930**	**6,837**	**6,944**	**8,194**
% chg	*38.8*	*15.3*	*1.6*	*18.0*
Adj Net Profit	**492**	**547**	**457**	**587**
% chg	*44.5*	*11.3*	*(16.6)*	*28.6*
EBITDA (%)	12.3	11.3	10.1	10.6
EPS (Rs)	**23.2**	**25.8**	**21.6**	**27.7**
P/E (x)	30.1	27.1	32.4	25.2
P/BV (x)	9.2	7.0	5.9	4.9
RoE (%)	*35.2*	*29.5*	*19.8*	*21.2*
RoCE (%)	*37.5*	*33.0*	*22.0*	*23.2*
EV/Sales (x)	2.4	2.1	2.0	1.7
EV/EBITDA (x)	19.4	18.8	19.7	15.8

Source: Company, Angel Research

Order Inflows – Key to watch

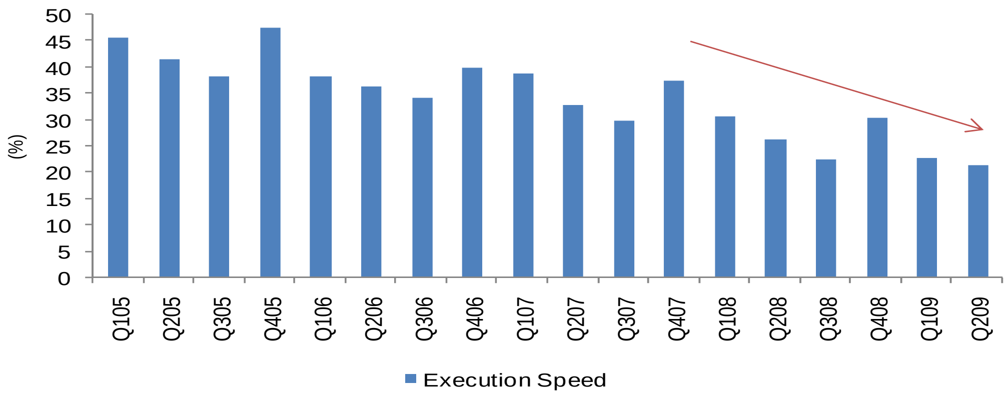
Order Inflows continue to be a key factor for the company. During the quarter, the company's Order Inflow declined 4.4% yoy to Rs2,112cr (Rs2,209cr). For 1HCY2009, the same was down 10.0% yoy to Rs4,415cr (Rs4,904cr). Management concurred that market sentiment has improved, but impact of the ongoing slowdown continues and it would take some time for conditions to ease. "The economy is entering recovery phase now coupled with a stable government in place. We remain optimistic on the long-term business prospects of ABB. However, it still remains to be seen how long before the stable phase of growth would return," management commented. The company's Order Backlog during the quarter ended higher by 12.5% yoy to Rs7,622cr (Rs6,777cr).

Exhibit 1: Order Inflow (yoy)



Source: Company, Angel Research

Exhibit 2: Slowing Execution



Source: Company, Angel Research

Segment-wise Performance

During the quarter, though weakness was witnessed in all ABB's Primary business segments, Sales were mainly impacted by poor performance of the Power-related segments, both of which registered de-growth. Sales of the Power Systems and the Power Products Segments was down 12.7% and 2.2% yoy respectively, while the Process Automation and Automation Products Segments registered marginal growth of 2.7% and 2.3%, respectively.

On the Margins front, all the Primary business Segments barring Power Products registered a Margin compression with Automation Products and Power Systems recording a maximum impact. EBIT Margins of the Power Systems Segment fell by 412bp to 2.9% (7.0%), Automation Products by 928bp to 5.5% (14.8%) and Process Automation by 79bp to 10.3% (11.0%).

Exhibit 3: Segment-wise Performance

Y/E Dec (Rs cr)	2QCY2009	2QCY2008	*% chg*	1HCY2009	1HCY2008	*% chg*
Revenues						
Power Systems	464.3	532.1	*(12.7)*	911.4	1,044.2	*(12.7)*
Power Products	501.7	512.9	*(2.2)*	927.6	939.1	*(1.2)*
Process Automation	292.2	284.4	*2.7*	527.7	579.7	*(9.0)*
Automation Products	404.3	395.3	*2.3*	788.7	790.3	*(0.2)*
Others	19.1	27.5	*(30.5)*	33.9	38.6	*(12.3)*
EBIT						
Power Systems	13.3	37.2	*(64.2)*	41.3	84.8	*(51.3)*
Power Products	67.9	62.8	*8.1*	122.0	118.1	*3.3*
Process Automation	30.0	31.4	*(4.6)*	60.6	73.5	*(17.6)*
Automation Products	22.4	58.6	*(61.8)*	50.6	98.3	*(48.5)*
Others	2.5	1.9	*34.8*	1.5	2.8	*(47.3)*
EBIT Margin (%)						
Power Systems	2.9	7.0		4.5	8.1	
Power Products	13.5	12.2		13.1	12.6	
Process Automation	10.3	11.0		11.5	12.7	
Automation Products	5.5	14.8		6.4	12.4	
Others	13.3	6.8		4.3	7.2	

Source: Company, Angel Research

Outlook and Valuation

The outlook for the Sector continues to be bleak especially in the near term. Besides, there is heightened competitive pressure in the market on account of price undercutting by some players to win orders. Reflecting the same, is the fact that the Power Transmission segment has witnessed 15-20% price fall since January 2009 while the damage in the Distribution Segment has been much steeper with about 25-30% price fall.

At the current price of Rs699, the stock is quoting at premium valuations of P/E of 32.4x and 25.2x 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 Rs499.**

Exhibit 4: 2QCY2009 Performance

Y/E Dec (Rs cr)	2QCY2009	2QCY2008	% chg	1HCY2009	1HCY2008	% chg
Net Sales	**1,505.0**	**1,616.3**	***(6.9)***	**2,898.2**	**3,151.6**	***(8.0)***
Raw Material	1,065.9	1,153.8	*(7.6)*	2,042.1	2,256.7	*(9.5)*
(% of Net Sales)	*70.8*	*71.4*		*70.5*	*71.6*	
Employee Cost	108.5	101.5	*6.9*	197.1	198.5	*(0.7)*
(% of Net Sales)	*7.2*	*6.3*		*6.8*	*6.3*	
Other Expenses	202.5	167.2	*21.2*	403.7	327.3	*23.4*
(% of Net Sales)	*13.5*	*10.3*		*13.9*	*10.4*	
Total Expenditure	**1,376.9**	**1,422.4**	***(3.2)***	**2,642.9**	**2,782.4**	***(5.0)***
EBITDA	**128.1**	**193.9**	***(33.9)***	**255.2**	**369.2**	***(30.9)***
EBITDA (%)	*8.5*	*12.0*		*8.8*	*11.7*	
Interest	8.0	4.5	*78.7*	18.4	10.0	*84.3*
Depreciation	12.5	8.8	*41.7*	23.4	17.1	*36.2*
Other Income	20.9	21.3	*(2.2)*	35.2	39.8	*(11.7)*
Profit before Tax	**128.4**	**201.9**	***(36.4)***	**248.7**	**382.0**	***(34.9)***
(% of Net Sales)	*8.5*	*12.5*		*8.6*	*12.1*	
Total Tax	44.8	70.1	*(36.1)*	86.7	132.5	*(34.5)*
(% of PBT)	*34.9*	*34.7*		*34.9*	*34.7*	
Reported PAT	**83.6**	**131.8**	***(36.6)***	**162.0**	**249.5**	***(35.1)***
(% of Net Sales)	*5.6*	*8.2*		*5.6*	*7.9*	

Source: Company, Angel Research

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Ratings (Returns) :	Buy (Upside > 15%)	Accumulate (Upside upto 15%)	Neutral (5 to -5%)
	Reduce (Downside upto 15%)	Sell (Downside > 15%)	