

# SIEMENS

## Reaping benefits of infra pick up

India Equity Research | Engineering and Capital Goods

Siemens (SIEM) reported 25%/21% YoY surge in Q2/H1FY17 revenues, led by large orders in power T&D and oil & gas. SIEM reported strong 96%/45% YoY growth in Q2/H1FY17 orders. However, PAT came below estimates on poor gross margins (down 400bps YoY). At its H1FY17 analyst meet, management highlighted positive triggers: 1) government's push to rail infra; 2) rising need for states to invest in T&D; 3) government's focus on higher local content across sectors; and 4) SIEM's digital platform across industries would service client needs. We upgrade to 'HOLD' with TP of INR1,322 (INR788 earlier), assigning upcycle PE of 55x (versus 31x), which is at 10% discount to our ABB multiple. We prefer ABB and Cummins over SIEM given better OPM and cash flow profile.

### High value orders, surging sectors underpin management stance

Siemens posted strong H1FY17 order intake of INR79.5bn (up 45% YoY), driving H1FY17 order book to INR124bn (+25%), led by large jobs in HVDC (T&D), oil & gas (ONGC) and railways, with good order pipeline in mobility and T&D. Order intake in H2FY17 is also likely to remain strong. While private sector slowdown is led by low capex (more by opex), management stated strong visibility in railways, metro rail and state T&D capex.

### What is Siemens India focusing on?

Management expects strong growth in infra with the government's target to take manufacturing to GDP ratio to 25% from the current 15%, implying humungous market opportunity of USD1.25tn (versus USD300bn currently). Siemens is transforming from being an equipment manufacturer/projects player to a highly customised solutions provider with its digitisation platform at the core of each vertical. Basically, Siemens will drive value-added products across industries - pharma, oil & gas, thermal plants, T&D - with higher share of digitisation to make overall infrastructure more efficient.

### Outlook and valuations: Growth reviving; upgrade to 'HOLD'

On account of SIEM's wide exposure to industrial basket, the company is benefitting from the broad-based pickup in large value orders across key sectors, which we believe will continue. While we are positive on SIEM's OB and top-line growth over next 2-3 years, we believe OPM scale up will be key challenge, given project volatility and competition. We estimate 19% earnings CAGR over FY16-18 with RoE profile of ~12%. At CMP, the stock trades at 55x FY18E PE. We upgrade to 'HOLD/SP' from 'REDUCE/SP' with TP of INR1,322 (based on 55x FY18E PE), given robust order book growth outlook.

#### Financials

	(INR mn)							
Year to Sept.	Q2FY17	Q2FY16	% change	Q1FY17	% change	FY16	FY17E	FY18E
Revenues	29,288	23,440	25.0	22,933	27.7	108,088	118,196	135,925
EBITDA	2,786	3,117	(10.6)	2,337	19.2	9,731	11,288	13,254
Adj. profit	1,791	1,890	(5.2)	1,607	11.4	6,056	7,406	9,092
EPS (INR)	5.0	5.3	(5.2)	4.5	11.4	17.0	20.8	25.5
P/E (x)						83.5	68.3	55.6
ROAE (%)						10.3	10.9	12.6

#### EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Overweight

#### MARKET DATA (R: SIEM.BO, B: SIEM IN)

CMP	: INR 1,422
Target Price	: INR 1,322
52-week range (INR)	: 1,471 / 1,011
Share in issue (mn)	: 356.1
M cap (INR bn/USD mn)	: 506 / 7,902
Avg. Daily Vol.BSE/NSE('000)	: 242.4

#### SHARE HOLDING PATTERN (%)

	Current	Q2FY17	Q1FY17
Promoters *	75.0	75.0	75.0
MF's, FI's & BK's	9.3	9.4	9.2
FII's	5.0	4.8	5.0
Others	10.7	10.8	10.8
* Promoters pledged shares (% of share in issue)	:	NIL	

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Capital Goods Index
1 month	9.5	3.2	3.9
3 months	18.3	8.3	18.4
12 months	25.6	20.9	34.6

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### Analyst meet: Key highlights

- **Results commentary:** 24% sales growth (continuing operations), ninth consecutive quarter of sales growth and twelfth quarter of 7% margins.
- **Public capex back on track:** Private sector capex is not happening given current utilisations at 65-70% and stressed assets/NPA issues. Private capex is happening mostly in opex.
- **Government policy for higher local content:** The government is mandating higher local content across key sectors like railways, oil and gas, power, etc.
- **Railways:** The upcoming metro rail policy could promote higher local content. Railways is focusing on efficiency capex. Average speed of trains in India needs to be increased substantially, a key driver of capex currently.
- **Power T&D:** Over next few years, 70-80GW DS sets and rising renewable capacity grid stability will be key issues that will drive T&D capex. STATCOMS and HVDC will be major focus areas. Current HVDC is the first contract for Siemens where PGCIL wanted higher local content (INR16bn is Siemens India's scope, which is 50% of total value). Medium voltage business is gaining momentum in T&D industry with rising scope of states in total T&D capex.
- **Airports & commercial building** will be a big growth area going ahead.
- **8GW of new ordering** is likely incrementally; 35GW of old thermal plants will be replaced.
- **Digital focus:** Siemens is unveiling its digital platform - announcing the concept of *Mindsphere* - across industries, pharma, oil and gas, thermal plants, T&D, etc. Siemens will drive value-added products with higher share of digitisation to automate processes to make overall infrastructure more efficient.
- **H2FY17 prospects robust:** Siemens expects many large ticket awards to happen in next 6 months in power T&D, railways, etc.
- **Government targets to increase manufacturing to GDP ratio from 15% to 25%:** Current GDP at 2.0tn implies USD300bn annual capex. Assuming reasonable growth rate, GDP number is expected to touch USD5.0tn over next decade or so. This implies >USD1.25tn investment in infra, implying 3-4 folds jump in infra capex over next decade.

Table 1: Segmental snapshot

Standalone	Q2FY17	Q2FY16	Y-o-Y growth (%)	FY16	FY15	Y-o-Y growth (%)
<b>Revenues (INR mn)</b>						
Power & Gas	4011.9	3504.36	14.5	14,207	15,710	(9.6)
Energy	12320.48	9269.56	32.9	36,162	31,627	14.3
Building technologies	1154.09	916.91	25.9	3,763	3,037	23.9
Mobility	3678.29	2544.47	44.6	10,933	9,671	13.0
Digital factory	5234.81	4454.8	17.5	18,780	16,414	14.4
Process Industries	5795.88	5602.37	3.5	21,975	19,045	15.4
Healthcare	0	0		8,326	14,248	(41.6)
Metals Technologies	0	0		-	1,505	(100.0)
Others	327.09	229.652	42.4	1,123	641	75.3
<b>Total</b>	<b>32,523</b>	<b>26,522</b>	<b>22.6</b>	<b>115,269</b>	<b>111,898</b>	<b>3.0</b>
<b>EBIT (INR mn)</b>						
Power & Gas	562.66	638.29	(11.8)	1,289	1,945	(33.7)
Energy	911.04	859.47	6.0	2,543	2,189	16.2
Building technologies	22.97	55.35	(58.5)	245	229	7.2
Mobility	132.81	259.61	(48.8)	694	475	46.2
Digital factory	312.31	401.33	(22.2)	1,232	1,267	(2.7)
Process Industries	267.14	332.56	(19.7)	1,016	729	39.2
Healthcare	0	0	NM	476	673	(29.2)
Metals Technologies	0	0			(104)	
Others	75	92	(18.7)	401	179	124.8
<b>Total</b>	<b>2,284</b>	<b>2,639</b>	<b>(13.4)</b>	<b>7,897</b>	<b>7,580</b>	<b>4.2</b>
<b>EBIT margins (%)</b>						
Power & Gas	14.0	18.2		9.1	12.4	
Energy	7.4	9.3		7.0	6.9	
Building technologies	2.0	6.0		6.5	7.5	
Mobility	3.6	10.2		6.3	4.9	
Digital factory	6.0	9.0		6.6	7.7	
Process Industries	4.6	5.9		4.6	3.8	
Healthcare	NA	NA		5.7	4.7	
Metals Technologies					(6.9)	
Others	22.9	40.1		35.7	27.9	
<b>Total</b>	<b>7.0</b>	<b>9.9</b>		<b>6.9</b>	<b>6.8</b>	

Source: Company, Edelweiss research

## Financial snapshot

(INR mn)

Year to September	Q2FY17	Q2FY16	% change	Q1FY17	% change	YTD17	FY17E	FY18E
Net revenues	29,288	23,440	25.0	22,933	27.7	52,221	118,196	135,925
Raw material	19,960	15,042	32.7	14,768	35.2	34,728	78,992	90,568
Staff costs	3,339	3,132	6.6	3,365	(0.8)	6,704	15,799	18,237
Other expenses	3,204	2,149	49.1	2,462	30.1	5,666	12,117	13,866
Total expenditure	26,503	20,323	30.4	20,596	28.7	47,098	106,908	122,671
EBITDA	2,786	3,117	(10.6)	2,337	19.2	5,123	11,288	13,254
Depreciation	502	478	4.9	483	3.9	984	2,247	2,327
EBIT	2,284	2,639	(13.4)	1,854	23.2	4,138	9,041	10,927
Other income	529	269	96.4	623	(15.1)	1,151	2,011	2,629
Interest	21	14	47.6	20	1.4	41	80	88
Add: Exceptional items	72	-	-	-	-	72	-	-
Profit before tax	2,863	2,894	(1.1)	2,456	16.6	5,320	10,972	13,469
Tax	1,001	1,004	(0.4)	849	17.8	1,850	3,566	4,377
Reported net profit	1,863	1,890	(1.4)	1,607	15.9	3,470	7,406	9,092
Adjusted Profit	1,791	1,890	(5.2)	1,607	11.4	3,398	7,406	9,092
Equity capital(FV INR 2)	712	712	-	712	-	1,424	712	712
Diluted shares (mn)	356	356	-	356	-	712	356	356
Adjusted Diluted EPS	5.0	5.3	(5.2)	4.5	11.4	9.5	20.8	25.5
Diluted P/E (x)	-	-	-	-	-	-	68.3	55.6
EV/EBITDA (x)	-	-	-	-	-	-	41.4	35.0
ROAE (%)	-	-	-	-	-	-	10.9	12.6

## As % of net revenues

Direct costs	68.1	64.2	-	64.4	-	132.5	66.8	66.6
Employee cost	11.4	13.4	-	14.7	-	26.1	13.4	13.4
Other operating expenses	16.1	14.3	-	16.7	-	32.7	10.3	10.2
EBITDA	9.5	13.3	-	10.2	-	19.7	9.6	9.8
Adjusted net profit	6.1	8.1	-	7.0	-	13.1	6.3	6.7
Tax rate	34.9	34.7	-	34.6	-	69.5	32.5	32.5

## Change in Estimates

	New	FY17E Old	% change	New	FY18E Old	% change	Comments
Net Revenue	118,196	115,058	2.7	135,925	126,564	7.4	
EBITDA	11,288	12,781	(11.7)	13,254	14,250	(7.0)	
EBITDA Margin	9.6	11.1	-	9.8	11.3	-	
Adjusted Profit	7,406	8,224	(10.0)	9,092	9,097	(0.1)	
After Tax							
Net Profit Margin	6.3	7.1	-	6.7	7.2	-	
Capex	1,000	1,000	0.0	1,000	1,000	0.0	

## Company Description

Siemens India (SIEM) is a 55% subsidiary of Siemens AG, Germany, which has presence in more than 190 countries. SIEM offers diverse products and services solutions in power generation, transmission and distribution, automation and drives, industrial solution and healthcare. It has nation-wide sales and service network, 17 manufacturing plants, and 500 strong networks of channel partners.

## Investment Theme

Siemens (SIEM) is one of the most diversified industrial equipment/solutions company with exposure in power, T&D, railways, oil and gas, cement and steel etc. The company is a major beneficiary of large project pickup in the economy which is largely driven by T&D, metals, oil and gas etc. The company also has major exposure to export markets especially the Middle East where it benefits purely on competence basis. With major government thrust to promote public infrastructure capex in large value sectors, we expect Siemens to see a robust growth in the order book in the next 3 to 5 years. However, on the private capex side especially steel etc. we expect pick up to happen after 12-15 months.

## Key Risks

Slowdown across major verticals (Steel, Power etc.) could hamper growth prospects of the company.

Increasing competitive intensity could impact the margins of the company & hence the profitability.

## Financial Statements

## Key Assumptions

Year to September	FY15	FY16	FY17E	FY18E
<b>Macro</b>				
GDP(Y-o-Y %)	7.1	7.2	6.5	7.1
Inflation (Avg)	5.9	4.9	4.8	5.0
Repo rate (exit rate)	7.5	6.8	6.3	6.3
USD/INR (Avg)	61.2	65.0	67.5	69.0
<b>Company</b>				
Order inflow growth (%)	(16)	25	35	20
Dep. (% gross block)	8.2	8.3	8.0	8.0

## Income statement

(INR mn)

Year to September	FY15	FY16	FY17E	FY18E
Income from operations	105,124	108,088	118,196	135,925
Direct costs	70,814	71,812	78,992	90,568
Employee costs	13,831	14,529	15,799	18,237
Other Expenses	10,742	12,016	12,117	13,866
Total operating expenses	95,387	98,357	106,908	122,671
EBITDA	9,736	9,731	11,288	13,254
Depreciation	2,156	2,263	2,247	2,327
EBIT	7,580	7,468	9,041	10,927
Add: Other income	1,604.4	1,639.14	2,010.88	2,629.46
Less: Interest Expense	49	59	80	88
Add: Exceptional items	7,827	29,923	-	-
Profit Before Tax	16,964	38,971	10,972	13,469
Less: Provision for Tax	5,131	10,091	3,566	4,377
Reported Profit	11,833	28,880	7,406	9,092
Exceptional Items	7,827	22,825	-	-
Adjusted Profit	4,005	6,056	7,406	9,092
Shares o /s (mn)	356	356	356	356
Basic EPS (INR)	11.2	17.0	20.8	25.5
Diluted shares o/s (mn)	356	356	356	356
Adjusted Diluted EPS	11.2	17.0	20.8	25.5
Adjusted Cash EPS	17.3	23.4	27.1	32.1
Dividend per share (DPS)	7.0	33.5	8.5	8.5
Dividend Payout Ratio(%)	36.2	49.5	49.0	39.9

## Common size metrics

Year to September	FY15	FY16	FY17E	FY18E
Operating expenses	90.7	91.0	90.4	90.2
EBITDA margins	9.3	9.0	9.6	9.8
Net Profit margins	3.8	5.6	6.3	6.7

## Growth ratios (%)

Year to September	FY15	FY16	FY17E	FY18E
Revenues	(1.4)	2.8	9.4	15.0
EBITDA	63.8	(0.1)	16.0	17.4
Adjusted Profit	81.7	51.2	22.3	22.8

Balance sheet		(INR mn)			
As on 30th September	FY15	FY16	FY17E	FY18E	
Share capital	712	712	712	712	
Reserves & Surplus	50,554	65,107	68,884	74,346	
Shareholders' funds	51,266	65,819	69,596	75,058	
Long Term Liabilities	3,057	2,537	2,537	2,537	
<b>Sources of funds</b>	<b>51,148</b>	<b>65,103</b>	<b>68,880</b>	<b>74,343</b>	
Gross Block	27,887	27,088	28,088	29,088	
Net Block	13,931	11,955	10,708	9,381	
Capital work in progress	-	791	791	791	
Total Fixed Assets	13,931	12,746	11,499	10,172	
Non current investments	1,686	1,647	1,647	1,647	
Cash and Equivalents	20,959	35,094	37,782	42,177	
Inventories	9,509	9,993	11,037	12,655	
Sundry Debtors	30,183	30,159	34,172	39,298	
Loans & Advances	25,833	24,523	26,975	28,998	
Current Assets (ex cash)	65,525	64,675	72,185	80,951	
Sundry creditors	36,334	33,050	38,224	44,596	
Provisions	14,620	16,009	16,009	16,009	
Total Current Liab	50,954	49,059	54,233	60,605	
Net Curr Assets-ex cash	14,571	15,616	17,952	20,346	
Net Deferred tax	(3,175)	(3,253)	(3,253)	(3,253)	
<b>Uses of funds</b>	<b>51,148</b>	<b>65,103</b>	<b>68,880</b>	<b>74,343</b>	
BVPS (INR)	144.0	184.8	195.4	210.8	

Free cash flow		(INR mn)			
Year to September	FY15	FY16	FY17E	FY18E	
Reported Profit	11,833	28,880	7,406	9,092	
Add: Depreciation	2,156	2,263	2,247	2,327	
Interest (Net of Tax)	34	44	54	59	
Others	(7,323)	(24,813)	(1,985)	(2,601)	
Less: Changes in WC	496	(18)	2,336	2,394	
Operating cash flow	6,204	6,392	5,386	6,483	
Less: Capex	420	(799)	1,000	1,000	
<b>Free Cash Flow</b>	<b>5,784</b>	<b>7,191</b>	<b>4,386</b>	<b>5,483</b>	

Cash flow metrics		FY15	FY16	FY17E	FY18E
Year to September					
Operating cash flow		6,204	6,392	5,386	6,483
Investing cash flow		5,896	2,396	931	1,542
Financing cash flow		(2,703)	(16,071)	(3,629)	(3,629)
Net cash Flow		9,397	(7,283)	2,688	4,395
Capex		(2,533)	(2,979)	(1,000)	(1,000)
Dividend paid		(2,703)	(16,071)	(3,629)	(3,629)

Profitability and efficiency ratios		FY15	FY16	FY17E	FY18E
Year to September					
ROAE (%)		8.4	10.3	10.9	12.6
ROACE (%)		19.3	15.6	16.3	18.7
Inventory Days		51	50	49	48
Debtors Days		137	102	99	99
Payable Days		207	176	165	167
Cash Conversion Cycle		(18)	(25)	(17)	(21)
Current Ratio		1.7	2.0	2.0	2.0
Interest Coverage Ratio		156.0	126.4	113.4	124.6

Operating ratios		FY15	FY16	FY17E	FY18E
Year to September					
Total Asset Turnover		2.2	1.9	1.8	1.9
Fixed Asset Turnover		7.8	8.4	10.4	13.5
Equity Turnover		2.2	1.8	1.7	1.9

Valuation parameters		FY15	FY16	FY17E	FY18E
Year to September					
Adj. Diluted EPS (INR)		11.2	17.0	20.8	25.5
Y-o-Y growth (%)		81.7	51.2	22.3	22.8
Adjusted Cash EPS (INR)		17.3	23.4	27.1	32.1
Diluted P/E (x)		126.4	83.6	68.4	55.7
P/B (x)		9.9	7.7	7.3	6.7
EV / Sales (x)		4.6	4.4	4.0	3.4
EV / EBITDA (x)		49.8	48.4	41.5	35.0
Dividend Yield (%)		0.5	2.4	0.6	0.6

## Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Siemens	7,902	68.4	55.7	7.3	6.7	10.9	12.6
ABB India	5,189	88.4	67.3	10.1	9.1	12.0	14.2
Median	-	78.4	61.5	8.7	7.9	11.4	13.4
AVERAGE	-	78.4	61.5	8.7	7.9	11.4	13.4

Source: Edelweiss research

## Additional Data

### Directors Data

Deepak S Parekh	Chairman	Armin Bruck	Managing Director
Joe Kaeser	Additional Director	Johannes Apitzsch	Alternate Director
Darius C Shroff	Director	Narendra J Jhaveri	Director
Keki Dadiseth	Director	Yezdi H Malegam	Director
Pradip V Nayak	Director	Roland Busch	Director
Sunil D Mathur	Executive Director & Chief Financial Officer		

Auditors - S R B C & Co. LLP

*\*as per last annual report*

### Holding – Top10

	Perc. Holding		Perc. Holding
Siemens ag	71.7	Life insurance corp	5.02
Siemens metals tech	3.3	Hdfc asset managemen	1.76
Vanguard group	0.81	Blackrock	0.67
Reliance capital tru	0.56	Axis asset managemen	0.34
Goldman sachs group	0.22	Govmt pension invst	0.14

*\*in last one year*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

*\*in last one year*



Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
ABB India	BUY	SO	L	Bajaj Electricals	HOLD	SP	M
Bharat Forge	BUY	SO	M	Bharat Heavy Electricals	BUY	SO	M
Crompton Greaves	HOLD	SP	M	Cummins India	BUY	SO	L
Engineers India Ltd	BUY	SO	L	Greaves Cotton	HOLD	SP	M
Havells India	BUY	SP	M	Kalpataru Power	BUY	SO	M
KEC International	BUY	SP	M	Larsen & Toubro	BUY	SO	M
Praj Industries	BUY	None	None	Ramkrishna Forgings	BUY	SP	M
Siemens	HOLD	SP	L	TD Power Systems	BUY	None	None
Techno Electric & Engineering	BUY	SO	M	Thermax	REDUCE	SP	L
Triveni Turbine	BUY	None	None	VA Tech Wabag	BUY	None	None
Voltas	BUY	SP	L				

## ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

## RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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## Coverage group(s) of stocks by primary analyst(s): Engineering and Capital Goods

ABB India, Bharat Heavy Electricals, Bharat Forge, Bajaj Electricals, Crompton Greaves, Engineers India Ltd, Greaves Cotton, Havells India, KEC International, Cummins India, Kalpataru Power, Larsen & Toubro, Praj Industries, Ramkrishna Forgings, Siemens, TD Power Systems, Techno Electric & Engineering, Thermax, Triveni Turbine, VA Tech Wabag, Voltas

### Recent Research

Date	Company	Title	Price (INR)	Recos
15-May-17	<b>Engineering &amp; Capital Goods</b>	Capex recovery: Here it comes!; <i>Sector Update</i>		
12-May-17	<b>Havells India</b>	On a transformational growth path; <i>Result Update</i>	513	Buy
05-May-17	<b>Greaves Cotton</b>	Growth challenges mount amidst stretched valuations ; <i>Result Update</i>	166	Hold

### Distribution of Ratings / Market Cap

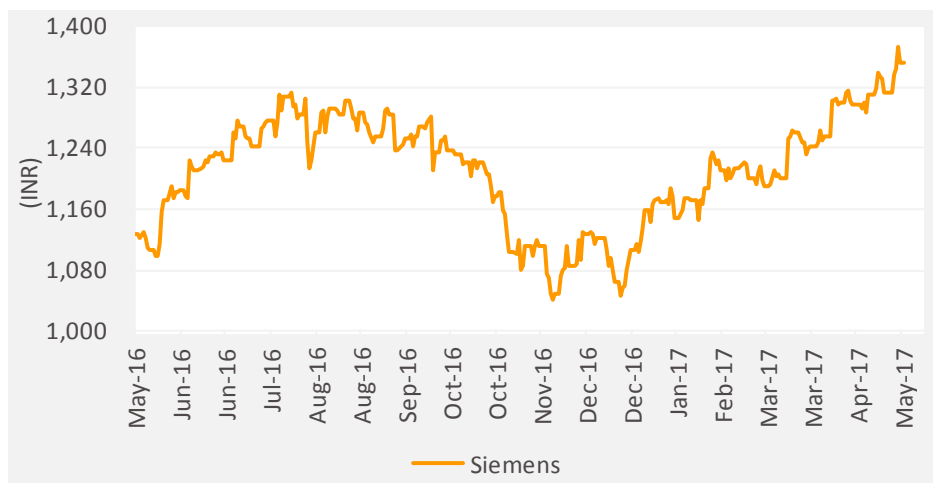
#### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

### One year price chart



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