

# SIEMENS

## Muted quarter; private capex revival awaited

India Equity Research | Engineering and Capital Goods

Key takeaways from Siemens' annual analyst meet are: a) 26% jump in FY17 order inflow was driven by public spending (HVDC Pugalur order and Nagpur Metro), while private sector remained muted. Management expects FY18 to be no different; b) while digitalisation of power plants' maintenance has been accepted in private sector (Vedanta & CLP), public sector is awaiting proof of concept before placing orders; and c) delays in large orders with only ~30% actually awarded versus management's initial assessment. While order intake/order book grew 26/23% YoY providing strong revenue visibility, we believe pick up in private capex and broad-based acceptance of digitalisation are necessary for next leg of profitability growth. We trim FY18/19E EPS 3% each factoring in muted Q4 and maintain 'HOLD' with revised TP of INR1,400 (INR1,450 earlier).

### Q4FY17 highlights: Margin improves despite muted quarter

Siemens reported 2% growth in Q4FY17 revenue. Growth in energy (up 11% YoY) was negated by decline in power & gas (down 14% YoY), mobility (down 25% YoY) and process industry (down 19% YoY). Dip in other expenses (10%) resulted in 120bps EBITDA margin expansion to 10.1%. Order inflow at INR27bn (up 10% YoY) resulted in closing order book of INR123bn (up 26% YoY).

### Slowdown in power T&D projects; industrial segment yet to pick up

Slowdown in thermal power capacity addition and limited requirement of transmission for renewable has led to slowdown in T&D project ordering. While SEBs are compensating for decline in PGCIL tendering, management does not expect any large HVDC order to be placed in FY18. Industrial segment was driven by pharma, food & beverages and packaging verticals; however, management stated that this growth is sporadic. Volumes in wind industry are expected to pickup post a temporary downturn with shift from FIT based regime to bid based regime. Minor ordering visibility with steel and cement companies talking about capex plans publicly.

### Outlook and valuations: Growth priced in; maintain 'HOLD'

We are positive on Siemens' order book and top-line growth over the next 2-3 years. However, we believe it is factored in and pick up in private capex and leg up in OPMs, key value triggers, are not on the anvil. Hence, maintain 'HOLD/SP'.

#### 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 1,216
Target Price	: INR 1,400
52-week range (INR)	: 1,471 / 1,045
Share in issue (mn)	: 356.1
M cap (INR bn/USD mn)	: 433 / 6,722
Avg. Daily Vol.BSE/NSE('000)	: 216.4

#### SHARE HOLDING PATTERN (%)

	Current	Q1FY18	Q4FY17
Promoters *	75.0	75.0	75.0
MF's, FI's & BK's	9.2	9.4	9.3
FII's	4.9	5.0	5.0
Others	10.9	10.6	10.7
* Promoters pledged shares (% of share in issue)	:	NIL	

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Capital Goods Index
1 month	(2.3)	1.8	5.4
3 months	(5.8)	5.4	7.4
12 months	13.8	30.4	35.1

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#### Financials

(INR mn)

Year to September	Q4FY17	Q4FY16	% Chg	Q3FY17	% Chg	FY17	FY18E	FY19E
Net revenues	31,418	30,906	1.7	26,508	18.5	109,919	132,234	152,265
EBITDA	3,172	2,761	14.9	2,255	40.7	10,284	12,724	14,979
Adjusted Profit	2,008	2,072	(3.1)	1,629	23.3	5,432	8,662	10,220
Adjusted Diluted EPS	5.6	5.8	(3.1)	4.6	23.3	15.3	24.3	28.7
Diluted P/E (x)						79.7	50.0	42.4
EV/EBITDA (x)						38.1	31.1	26.1
ROAE (%)						7.5	10.9	11.9

### Siemens analyst meet FY17 KTAs

#### Overall business -

- While the base business grew steadily at 19% in FY17, the incremental growth was driven by focus on large orders. The company had bagged HVDC Pugalur and Nagpur Metro orders in FY17. Going ahead, the management has highlighted the fact that their focus would continue on large orders for the incremental growth.
- The management also highlighted that only 30% of the large orders anticipated at beginning of FY17 were actually tendered in FY17. Consequently the management does not override changes of large contracts spillover in FY18.

#### Industry Outlook -

- The management believes pick up in private capex is almost a year away and 2018 to be driven by public spending, coupled with ease of doing business.
- No HVDC orders are expected in FY18 and no large orders in power generation business are anticipated in FY18.

#### Power T&D -

- Slowdown in the thermal power capacity addition impacted T&D projects in FY17. Further 50% of the coal fired thermal power plants have reached end of replacement life.
- UDAY scheme are showing signs of benefit, with most states improving their efficiencies and raising tariffs
- A key monitorable would be on regarding the future mix for power.

#### Industry -

- Growth was witnessed in pharma, food and beverages and packaging business. However the management has stated that this growth is sporadic and not structural.
- More companies in sectors such as Refinery, steel and Cement are making their expansion plans public providing some visibility.

#### Digitalisation -

- Siemens digital fleet center solution has successfully connected TSPL and BALCO power plants of Vedanta highlighting the fact regarding private sector acceptance. Most of the public companies require proof of concept and hence will take some time to move in this direction.

#### Merger -

- The Siemens AG and GE merger (if through) will happen only by Q4CY18. Until then both companies would independently continue to bid for projects.

Table 1: Order inflow breakdown

Mix of order inflow	FY17 - INR 135bn	FY16 - INR 107bn
Project	43.0%	37.1%
Product	57.0%	62.9%
Export	21.2%	24.8%
Domestic	78.8%	75.2%
Government	37.3%	28.3%
Non Government	62.7%	71.7%

Source: Company, Edelweiss research

Table 2: Segmental snapshot

Standalone	Q4FY17	Q4FY16	Y-o-Y growth (%)	FY17	FY16	Y-o-Y growth (%)
<b>Revenues (INR mn)</b>						
Power & Gas	3,879	4,530	(14.4)	14,403	14,252	1.1
Energy	13,452	12,082	11.3	46,492	36,663	26.8
Building technologies	1,196	1,295	(7.6)	4,399	3,774	16.6
Mobility	2,562	3,436	(25.4)	11,872	10,933	8.6
Digital factory	6,073	5,861	3.6	20,460	18,788	8.9
Process Industries	5,779	7,105	(18.7)	22,548	22,285	1.2
Healthcare	0	0	NM	0	12,754	NM
Others	331	488	(32.2)	1,324	1,123	17.8
<b>Total (Ex-healthcare)</b>	<b>33,272</b>	<b>34,798</b>	<b>(4.4)</b>	<b>121,498</b>	<b>107,818</b>	<b>12.7</b>
<b>EBIT (INR mn)</b>						
Power & Gas	668	417	60.1	2,044	1,418	44.1
Energy	964	832	15.9	3,252	2,518	29.2
Building technologies	147	98	49.2	289	243	18.6
Mobility	242	257	(5.9)	892	714	24.9
Digital factory	365	407	(10.3)	1,230	1,248	(1.4)
Process Industries	239	124	92.4	545	904	(39.7)
Healthcare	0	0	NM	0	466	NM
Others	43	162	(73.2)	330	396	(16.6)
<b>Total (Ex-healthcare)</b>	<b>2,669</b>	<b>2,299</b>	<b>16.1</b>	<b>8,582</b>	<b>7,442</b>	<b>15.3</b>
<b>EBIT margins (%)</b>						
Power & Gas	17.2	9.2		14.2	10.0	
Energy	7.2	6.9		7.0	6.9	
Building technologies	12.3	7.6		6.6	6.5	
Mobility	9.4	7.5		7.5	6.5	
Digital factory	6.0	7.0		6.0	6.6	
Process Industries	4.1	1.8		2.4	4.1	
Healthcare	NM	NM		NM	3.7	
Others	13.1	33.2		24.9	35.2	
<b>Total (Ex-healthcare)</b>	<b>8.0</b>	<b>6.6</b>		<b>7.1</b>	<b>6.9</b>	

Source: Edelweiss research

## Financial snapshot

(INR mn)

Year to September	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY17	FY18E	FY19E
Net revenues	31,418	30,906	1.7	26,508	18.5	109,919	132,234	152,265
Raw material	21,305	21,003	1.4	17,472	21.9	73,504	88,374	101,379
Staff costs	3,700	3,531	4.8	3,522	5.1	13,926	16,857	19,592
Other expenses	3,242	3,611	(10.2)	3,260	(0.6)	12,205	14,279	16,314
Total expenditure	28,247	28,145	0.4	24,254	16.5	99,635	119,510	137,286
EBITDA	3,172	2,761	14.9	2,255	40.7	10,284	12,724	14,979
Depreciation	502	462	8.8	480	4.7	1,967	2,268	2,370
EBIT	2,669	2,299	16.1	1,775	50.4	8,317	10,457	12,610
Other income	630	687	(8.4)	731	(13.8)	2,547	2,464	2,627
Interest	22	21	7.9	14	60.7	77	88	96
Add: Exceptional items	5,603	29,923	(81.3)	-	-	5,675	-	-
Profit before tax	8,880	32,889	(73.0)	2,492	256.4	16,462	12,833	15,141
Tax	2,642	7,992	(66.9)	863	206.2	5,355	4,171	4,921
Reported net profit	6,238	24,896	(74.9)	1,629	283.0	11,107	8,662	10,220
Adjusted Profit	2,008	2,072	(3.1)	1,629	23.3	5,432	8,662	10,220
Equity capital(FV INR 2)	712	712	-	712	-	712	712	712
Diluted shares (mn)	356	356	-	356	-	356	356	356
Adjusted Diluted EPS	5.6	5.8	(3.1)	4.6	23.3	15.3	24.3	28.7
<b>As % of net revenues</b>								
Direct costs	67.8	68.0	-	65.9	-	66.9	66.8	66.6
Employee cost	11.8	11.4	-	13.3	-	12.7	12.7	12.9
Other operating expenses	15.2	17.2	-	18.7	-	11.1	10.8	10.7
EBITDA	10.1	8.9	-	8.5	-	9.4	9.6	9.8
Adjusted net profit	6.4	6.7	-	6.1	-	4.9	6.6	6.7
Tax rate	29.8	24.3	-	34.6	-	32.5	32.5	32.5

## 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	FY16	FY17	FY18E	FY19E
<b>Macro</b>				
GDP(Y-o-Y %)	7.9	6.6	6.8	7.4
Inflation (Avg)	4.9	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.5	67.1	65.0	66.0
<b>Company</b>				
Order inflow growth (%)	25	26	15	15
Dep. (% gross block)	7.8	6.3	6.8	6.8

### Income statement

(INR mn)

Year to September	FY16	FY17	FY18E	FY19E
Income from operations	108,094	109,919	132,234	152,265
Direct costs	71,812	73,504	88,374	101,379
Employee costs	14,139	13,926	16,857	19,592
Other Expenses	11,940	12,205	14,279	16,314
Total operating expenses	97,892	99,635	119,510	137,286
EBITDA	10,203	10,284	12,724	14,979
Depreciation	2,263	1,967	2,268	2,370
EBIT	7,940	8,317	10,457	12,610
Add: Other income	1,645	2,547	2,464	2,627
Less: Interest Expense	91	77	88	96
Add: Exceptional items	29,923	5,675	-	-
Profit Before Tax	39,417	16,462	12,833	15,141
Less: Provision for Tax	10,091	5,355	4,171	4,921
Reported Profit	29,326	11,107	8,662	10,220
Exceptional Items	22,825	5,675	-	-
Adjusted Profit	6,502	5,432	8,662	10,220
Shares o /s (mn)	356	356	356	356
Basic EPS (INR)	18.3	15.3	24.3	28.7
Diluted shares o/s (mn)	356	356	356	356
Adjusted Diluted EPS	18.3	15.3	24.3	28.7
Adjusted Cash EPS	24.6	20.8	30.7	35.4
Dividend per share (DPS)	33.5	8.5	8.5	7.0
Dividend Payout Ratio(%)	48.8	32.7	41.9	29.2

### Common size metrics

Year to September	FY16	FY17	FY18E	FY19E
Operating expenses	90.6	90.6	90.4	90.2
EBITDA margins	9.4	9.4	9.6	9.8
Net Profit margins	6.0	4.9	6.6	6.7

### Growth ratios (%)

Year to September	FY16	FY17	FY18E	FY19E
Revenues	2.8	1.7	20.3	15.1
EBITDA	4.8	0.8	23.7	17.7
Adjusted Profit	62.3	(16.4)	59.4	18.0

Balance sheet		(INR mn)			
As on 30th September	FY16	FY17	FY18E	FY19E	
Share capital	712	712	712	712	
Reserves & Surplus	67,496	76,335	81,368	88,599	
Shareholders' funds	68,208	77,047	82,080	89,311	
Long Term Liabilities	2,183	2,196	2,196	2,196	
<b>Sources of funds</b>	<b>67,039</b>	<b>76,801</b>	<b>81,834</b>	<b>89,065</b>	
Gross Block	30,087	32,346	33,346	34,846	
Net Block	13,052	13,344	12,077	11,207	
Capital work in progress	791	1,430	1,430	1,430	
Total Fixed Assets	13,843	14,774	13,506	12,637	
Non current investments	550	550	550	550	
Cash and Equivalents	35,094	40,713	37,354	41,827	
Inventories	9,993	10,165	12,348	14,165	
Sundry Debtors	30,974	34,725	38,034	50,127	
Loans & Advances	25,735	27,862	30,431	31,953	
Current Assets (ex cash)	66,701	72,752	80,814	96,245	
Sundry creditors	39,989	43,756	42,159	53,963	
Provisions	9,160	8,231	8,231	8,231	
Total Current Liab	49,149	51,987	50,391	62,194	
Net Curr Assets-ex cash	17,552	20,764	30,423	34,051	
Net Deferred tax	(3,351)	(2,442)	(2,442)	(2,442)	
<b>Uses of funds</b>	<b>67,039</b>	<b>76,801</b>	<b>81,834</b>	<b>89,065</b>	
BVPS (INR)	191.5	216.4	230.5	250.8	

Free cash flow		(INR mn)			
Year to September	FY16	FY17	FY18E	FY19E	
Reported Profit	29,326	11,107	8,662	10,220	
Add: Depreciation	2,263	1,967	2,268	2,370	
Interest (Net of Tax)	67	52	59	65	
Others	(25,283)	(2,522)	(2,435)	(65)	
Less: Changes in WC	1,194	3,212	9,659	3,628	
Operating cash flow	5,180	7,391	(1,105)	8,961	
Less: Capex	2,200	2,259	1,000	1,500	
<b>Free Cash Flow</b>	<b>2,980</b>	<b>5,132</b>	<b>(2,105)</b>	<b>7,461</b>	

## Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Siemens	6,722	50.0	42.4	5.3	4.8	10.9	11.9
ABB India	4,641	57.9	47.2	7.4	6.6	12.9	13.5
Median	-	53.8	44.8	6.4	5.7	11.9	12.7
AVERAGE	-	53.8	44.8	6.4	5.7	11.9	12.7

Source: Edelweiss research

Cash flow metrics		FY16	FY17	FY18E	FY19E
Year to September					
Operating cash flow	5,180	7,391	(1,105)	8,961	
Investing cash flow	2,396	(427)	1,376	(1,500)	
Financing cash flow	(16,071)	(3,629)	(3,629)	(2,989)	
Net cash Flow	(8,495)	3,335	(3,358)	4,472	
Capex	(2,979)	(2,897)	(1,000)	(1,500)	
Dividend paid	(16,071)	(3,629)	(3,629)	(2,989)	

## Profitability and efficiency ratios

Year to September	FY16	FY17	FY18E	FY19E
ROAE (%)	10.9	7.5	10.9	11.9
ROACE (%)	16.0	15.0	16.2	17.8
Inventory Days	50	50	46	48
Debtors Days	103	109	100	106
Payable Days	194	208	177	173
Cash Conversion Cycle	(41)	(49)	(31)	(20)
Current Ratio	2.1	2.2	2.3	2.2
Interest Coverage Ratio	87.7	107.9	119.2	130.7

## Operating ratios

Year to September	FY16	FY17	FY18E	FY19E
Total Asset Turnover	1.8	1.5	1.7	1.8
Fixed Asset Turnover	8.0	8.3	10.4	13.1
Equity Turnover	1.8	1.5	1.7	1.8

## Valuation parameters

Year to September	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	18.3	15.3	24.3	28.7
Y-o-Y growth (%)	62.3	(16.4)	59.4	18.0
Adjusted Cash EPS (INR)	24.6	20.8	30.7	35.4
EV / Sales (x)	3.7	3.6	3.0	2.6
EV / EBITDA (x)	(3.4)	(4.0)	(2.9)	(2.8)

## 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
Siemens metals tech	3.3	Hdfc asset managemen	1.97
Vanguard group	0.87	Blackrock	0.7
Reliance capital tru	0.61	Goldman sachs group	0.24
Sundaram asset manag	0.19	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	Bharat Forge	BUY	SO	M
Bharat Heavy Electricals	BUY	SP	M	CG Power and Industrial Solutions	HOLD	SP	M
Cummins India	BUY	SO	L	Engineers India Ltd	BUY	SO	L
Greaves Cotton	HOLD	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	HOLD	None	None
Techno Electric & Engineering	BUY	SP	M	Thermax	REDUCE	SP	L
Triveni Turbine	BUY	None	None	VA Tech Wabag	BUY	None	None

## 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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Ideas create, values protect



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

ABB India, Bharat Heavy Electricals, Bharat Forge, CG Power and Industrial Solutions, Engineers India Ltd, Greaves Cotton, 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

### Recent Research

Date	Company	Title	Price (INR)	Recos
14-Nov-17	<b>Kalpataru Power</b>	In-line performance; bright prospects; <i>Result Update</i>	377	Buy
13-Nov-17	<b>Techno Electric and Engineering</b>	GST rigours seen; outlook stable; <i>Result Update</i>	366	Buy
13-Nov-17	<b>Larsen &amp; Toubro</b>	Core steady; prospects blooming; <i>Result Update</i>	1265	Buy

### Distribution of Ratings / Market Cap

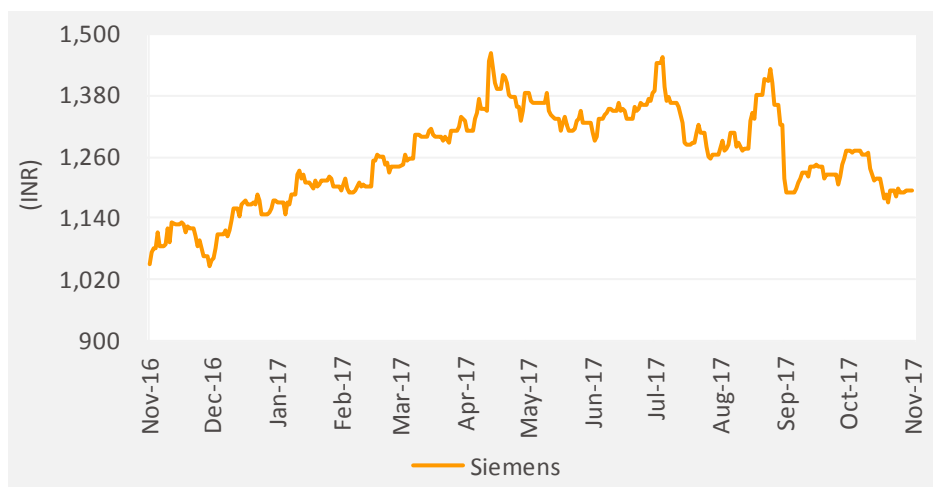
#### Edelweiss Research Coverage Universe

	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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