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Rating	Accumulate
Price	Rs1,128
Target Price	Rs1,401
Implied Upside	24.2%
Sensex	35,176
Nifty	10,718

(Prices as on May 02, 2018)

Trading data

Market Cap. (Rs bn)	401.0
Shares o/s (m)	355.5
3M Avg. Daily value (Rs m)	241.4

Major shareholders

Promoters	75.00%
Foreign	4.81%
Domestic Inst.	9.48%
Public & Other	10.71%

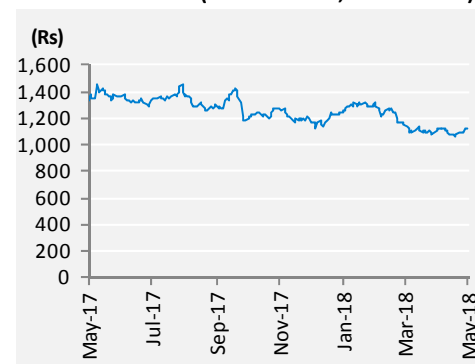
Stock Performance

(%)	1M	6M	12M
Absolute	2.4	(11.1)	(15.5)
Relative	(4.3)	(15.8)	(33.0)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	29.9	30.9	-3.5
2020	31.7	36.0	-11.9

Price Performance (RIC: SIEM.BO, BB: SIEM IN)



Source: Bloomberg

■ **Steady performance:** Revenues were up 12% YoY (10% comparable) to Rs32.8bn (PL:Rs30.7bn) in the quarter. The Energy Management, Building Technologies and Digital Factory segments drove growth (up 21%, 9%, and 18.5% YoY respectively); all other segments reported decline in sales YoY. EBITDA was up 16% YoY to Rs3.2bn. Margins improved by 30bps YoY to 9.8% (PL:10.7%). PAT was up ~18% YoY to Rs2.2bn led by higher other income and reduction in the Interest Cost (~47%) (PL: Rs2.2bn).

■ **Base business growing, government tenders seeing slow down:** Order book at the end of Q2FY18 (September yearend) stood at Rs139.2bn (up 2% YoY). Inflow for the quarter was down 38% YoY to Rs29.2bn. Base business orders were up 22% and a large order was won by PGCIL for the Pugalur-Thrissur HVDC transmission system. SIEM highlighted that government tendering of large projects in the Energy business (Generation, T&D) has slowed down, while private sector capex is seeing some traction. Exports continue to be ~20% of the order book, but are seeing slower growth compared to domestic.

■ **Sale of Mobility Division:** The management has agreed in principle to sell its Mobility Division and Rail Traction Drives business to Siemens AG, Germany (Parent) which will then be combined with Alstom SA, France. The Mobility division accounts for 10.46% of Revenues and 2.82% of the capital employed of the company for CY17.

Siemens AG, Germany (Parent) announced the setting up of a Standalone company for the Mechanical Drives business (included in Process Industries and Drives Division) accounting for 4.69% of Revenues for CY17, will be sold to the parent or its subsidiaries.

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Key financials (Y/e September)	2017	2018E	2019E	2020E
Revenues (Rs m)	110,148	130,193	147,639	155,021
Growth (%)	1.9	18.2	13.4	5.0
EBITDA (Rs m)	10,512	13,672	15,502	16,277
PAT (Rs m)	7,106	9,304	10,637	11,301
EPS (Rs)	20.0	26.1	29.9	31.7
Growth (%)	20.0	30.9	14.3	6.2
Net DPS (Rs)	7.5	7.5	7.5	7.5

Profitability & Valuation	2017	2018E	2019E	2020E
EBITDA margin (%)	9.5	10.5	10.5	10.5
RoE (%)	12.3	14.9	15.7	15.5
RoCE (%)	12.4	15.0	15.9	15.7
EV / sales (x)	3.5	2.9	2.6	2.5
EV / EBITDA (x)	36.2	27.8	24.5	23.4
PE (x)	56.5	43.2	37.8	35.5
P / BV (x)	6.7	6.2	5.7	5.3
Net dividend yield (%)	0.7	0.7	0.7	0.7

Source: Company Data; PL Research

- **Outlook and Valuation:** The stock is trading at 37.8x and 35.5x Sept-19 and Sept-20 earnings. We believe that once the economic recovery sets in, we will start to see significant order inflows leading to earnings upgrades. Focus on cost optimization and localization should help competitiveness, which, in turn, will help SIEM once the market recovers. Given its wide portfolio, the company is best placed to benefit from recovery in capex cycle as and when it happens. We expect the company to deliver earnings CAGR of 17% over CY17-20E. We rate the stock as 'Accumulate'.

Exhibit 1: Q2FY18 Result Overview (Rs mn)

Y/e Sep	Q2FY18	Q2FY17	YoY gr. (%)	Q1FY18	H1FY18	H1FY17	YoY gr. (%)
Net Revenues	32,834	29,288	12.1	24,295	57,129	52,241	9.4
Expenditure							
Raw Material & Components	22,544	19,960	12.9	16,044	38,588	34,727	11.1
<i>% of Net Sales</i>	<i>68.7</i>	<i>68.1</i>		<i>66.0</i>	<i>67.5</i>	<i>66.5</i>	
Personnel	3,653	3,339	9.4	3,398	7,051	6,704	5.2
<i>% of Net Sales</i>	<i>11.1</i>	<i>11.4</i>		<i>14.0</i>	<i>12.3</i>	<i>12.8</i>	
Others	3,409	3,204	6.4	2,129	5,538	5,666	(2.3)
<i>% of Net Sales</i>	<i>10.4</i>	<i>10.9</i>		<i>8.8</i>	<i>9.7</i>	<i>10.8</i>	
Total Expenditure	29,606	26,503	11.7	21,571	51,177	47,097	8.7
EBITDA	3,228	2,786	15.9	2,724	5,952	5,143	15.7
<i>Margin (%)</i>	<i>9.8</i>	<i>9.5</i>		<i>11.2</i>	<i>10.4</i>	<i>9.8</i>	
Other income	639	529	20.9	705	1,344	1,151	16.7
Depreciation	490	502	(2.3)	470	960	984	(2.5)
EBIT	3,377	2,813	20.1	2,959	6,336	5,310	19.3
Interest	11	21	(46.9)	17	28	41	(32.0)
PBT	3,366	2,792	20.6	2,942	6,308	5,269	19.7
Unusual or infreq items	-	72		-	-	72	(100.0)
PBT-Adjusted	3,366	2,863	17.6	2,942	6,308	5,341	18.1
Total Taxes	1,169	1,000	16.9	1,037	2,206	1,856	18.8
PAT	2,197	1,863	17.9	1,905	4,102	3,484	17.7
Adj PAT	2,197	1,863	17.9	1,905	4,102	3,484	17.7

Source: Company Data, PL Research

Exhibit 2: Segmental Break-up

Y/e Sept	Q2FY18	Q2FY17	YoY gr. (%)	Q1FY18	QoQ gr. (%)
Power and Gas	3,699	4,012	(7.8)	2,982	24.0
Energy Management	14,842	12,320	20.5	10,365	43.2
Building Technologies	1,245	1,154	7.9	890	39.9
Mobility	2,079	3,678	(43.5)	2,051	1.4
Digital Factory	6,204	5,235	18.5	5,046	22.9
Process Industries and Drives	5,670	5,796	(2.2)	4,013	41.3
Others	445	327	36.1	270	64.8
Total	34,184	32,522	5.1	25,617	33.4
Less: Intersegmental	1,350	2,010	(32.8)	1,322	2.1
Total Income	32,834	30,512	7.6	24,295	35.1
Segment Results margin (%)					
Power and Gas	11.9	14.0		18.1	
Energy Management	8.4	7.4		10.6	
Building Technologies	8.9	2.0		7.3	
Mobility	7.5	3.6		5.6	
Digital Factory	7.0	6.0		8.1	
Process Industries and Drives	4.4	4.6		(1.0)	
Others	23.4	22.9		25.9	
Total	8.0	7.0		8.8	
Total Income	8.3	9.2		11.9	

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e September	2017	2018E	2019E	2020E
Net Revenue	110,148	130,193	147,639	155,021
Raw Material Expenses	73,504	93,086	105,562	110,840
Gross Profit	36,643	37,107	42,077	44,181
Employee Cost	13,926	14,321	16,240	17,052
Other Expenses	12,205	9,114	10,335	10,851
EBITDA	10,512	13,672	15,502	16,277
Depr. & Amortization	1,967	2,026	2,087	2,149
Net Interest	77	133	133	133
Other Income	2,547	2,802	3,082	3,391
Profit before Tax	16,691	14,316	16,365	17,386
Total Tax	5,355	5,010	5,728	6,085
Profit after Tax	11,336	9,306	10,637	11,301
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	7,106	9,304	10,637	11,301
Avg. Shares O/S (m)	356.1	356.1	356.1	356.1
EPS (Rs.)	20.0	26.1	29.9	31.7

Cash Flow Abstract (Rs m)

Y/e September	2017	2018E	2019E	2020E
C/F from Operations	8,398	9,306	10,592	12,625
C/F from Investing	(3,000)	(3,000)	(3,000)	(3,000)
C/F from Financing	(3,769)	(4,563)	(5,450)	(6,513)
Inc. / Dec. in Cash	1,629	1,742	2,143	3,112
Opening Cash	12,612	14,241	15,983	18,126
Closing Cash	14,241	15,983	18,126	21,238
FCFF	6,765	6,173	7,459	9,492
FCFE	6,765	6,173	7,459	9,492

Key Financial Metrics

Y/e September	2017	2018E	2019E	2020E
Growth				
Revenue (%)	1.9	18.2	13.4	5.0
EBITDA (%)	8.0	30.1	13.4	5.0
PAT (%)	20.0	30.9	14.3	6.2
EPS (%)	20.0	30.9	14.3	6.2
Profitability				
EBITDA Margin (%)	9.5	10.5	10.5	10.5
PAT Margin (%)	6.5	7.1	7.2	7.3
RoCE (%)	12.4	15.0	15.9	15.7
RoE (%)	12.3	14.9	15.7	15.5
Balance Sheet				
Net Debt : Equity	(0.4)	(0.3)	(0.3)	(0.3)
Net Wrkng Cap. (days)	16	25	25	25
Valuation				
PER (x)	56.5	43.2	37.8	35.5
P / B (x)	6.7	6.2	5.7	5.3
EV / EBITDA (x)	36.2	27.8	24.5	23.4
EV / Sales (x)	3.5	2.9	2.6	2.5
Earnings Quality				
Eff. Tax Rate	32.1	35.0	35.0	35.0
Other Inc / PBT	23.1	19.6	18.8	19.5
Eff. Depr. Rate (%)	5.3	5.0	4.8	4.7
FCFE / PAT	95.2	66.3	70.1	84.0

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e September	2017	2018E	2019E	2020E
Shareholder's Funds	59,985	65,030	70,305	75,226
Total Debt	—	—	—	—
Other Liabilities	(4,571)	(5,486)	(6,583)	(7,899)
Total Liabilities	55,413	59,544	63,722	67,326
Net Fixed Assets	17,401	19,376	21,289	23,140
Goodwill	—	—	—	—
Investments	1,764	1,764	1,764	1,764
Net Current Assets	36,248	38,405	40,670	41,628
<i>Cash & Equivalents</i>	<i>21,507</i>	<i>21,507</i>	<i>21,507</i>	<i>21,507</i>
<i>Other Current Assets</i>	<i>74,236</i>	<i>87,747</i>	<i>99,505</i>	<i>104,480</i>
<i>Current Liabilities</i>	<i>59,495</i>	<i>70,848</i>	<i>80,342</i>	<i>84,359</i>
Other Assets	—	—	—	—
Total Assets	55,413	59,544	63,722	66,531

Quarterly Financials (Rs m)

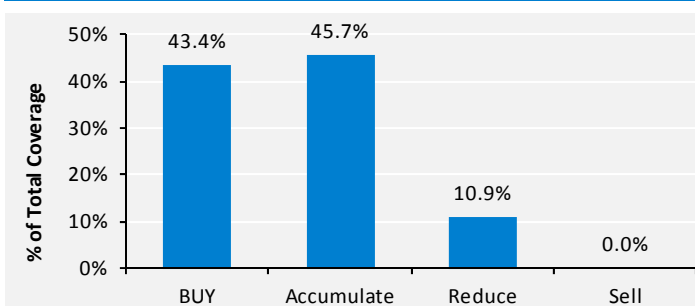
Y/e September	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Net Revenue	26,508	31,418	24,295	32,834
EBITDA	2,255	3,172	2,724	3,228
% of revenue	8.5	10.1	11.2	9.8
Depr. & Amortization	480	502	470	490
Net Interest	14	22	17	11
Other Income	731	630	705	639
Profit before Tax	2,492	3,277	2,942	3,366
Total Tax	863	2,642	1,037	1,169
Profit after Tax	1,629	635	1,905	2,197
Adj. PAT	1,629	635	1,905	2,197

Source: Company Data, PL Research.

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BUY	: Over 15% Outperformance to Sensex over 12-months
Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months
Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month
Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock
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