Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

# Siemens

## Focus on profitability and digital solutions

Q2FY18 Result Update

**May 03, 2018**

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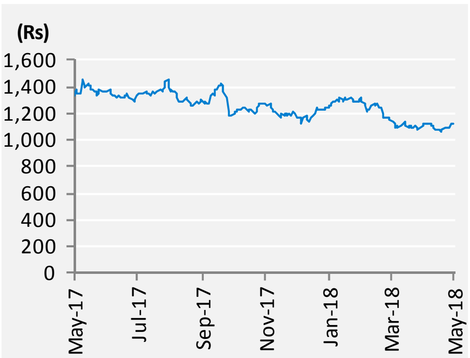
| | |
|---|---|
| Rating | **Accumulate** |
| Price | Rs1,128 |
| Target Price | Rs1,401 |
| Implied Upside | 24.2% |
| Sensex | 35,176 |
| Nifty | 10,718 |

***(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 (PLe: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% (PLe:10.7%). PAT was up ~18% YoY to Rs2.2bn led by higher other income and reduction in the Interest Cost (~47%) (PLe: 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.

*Contd...2*

| **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* |
| *% of Net Sales* | *68.7* | *68.1* | | *66.0* | *67.5* | *66.5* | |
| Personnel | 3,653 | 3,339 | *9.4* | 3,398 | 7,051 | 6,704 | *5.2* |
| *% of Net Sales* | *11.1* | *11.4* | | *14.0* | *12.3* | *12.8* | |
| Others | 3,409 | 3,204 | *6.4* | 2,129 | 5,538 | 5,666 | *(2.3)* |
| *% of Net Sales* | *10.4* | *10.9* | | *8.8* | *9.7* | *10.8* | |
| 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* |
| *Margin (%)* | *9.8* | *9.5* | | *11.2* | *10.4* | *9.8* | |
| 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** |

**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 |
| *Cash & Equivalents* | *21,507* | *21,507* | *21,507* | *21,507* |
| *Other Current Assets* | *74,236* | *87,747* | *99,505* | *104,480* |
| *Current Liabilities* | *59,495* | *70,848* | *80,342* | *84,359* |
| Other Assets | — | — | — | — |
| **Total Assets** | **55,413** | **59,544** | **63,722** | **66,531** |

**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 |

**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.*

**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.*

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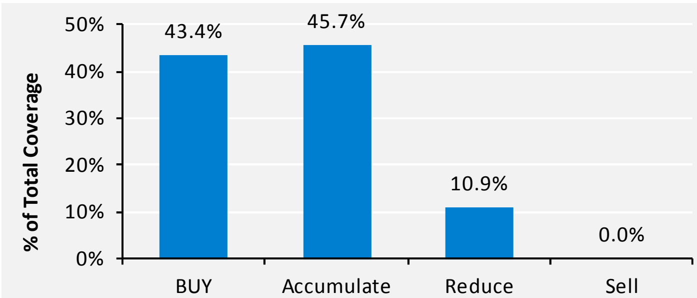
### Rating Distribution of Research Coverage




### PL's Recommendation Nomenclature

| | | |
|---|---|---|
| **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 |
| **Under Review (UR)** | : | Rating likely to change shortly |





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