

April 9, 2019

Management Meet Update

■ Change in Estimates | ☒ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,221		1,146	
Sales (Rs. m)	1,60,717	1,78,480	1,60,717	1,78,480
% Chng.	-	-	-	-
EBITDA (Rs. m)	17,322	19,745	17,322	19,745
% Chng.	-	-	-	-
EPS (Rs.)	32.7	37.3	32.7	37.3
% Chng.	-	-	-	-

Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. m)	1,27,953	1,42,064	1,60,717	1,78,480
EBITDA (Rs. m)	13,273	14,935	17,322	19,745
Margin (%)	10.4	10.5	10.8	11.1
PAT (Rs. m)	9,012	9,952	11,654	13,275
EPS (Rs.)	25.3	28.0	32.7	37.3
Gr. (%)	(20.7)	10.4	17.1	13.9
DPS (Rs.)	7.0	7.7	9.1	10.3
Yield (%)	0.6	0.7	0.8	0.9
RoE (%)	11.3	11.5	12.5	13.0
RoCE (%)	14.1	14.9	16.2	17.2
EV/Sales (x)	2.9	2.6	2.3	2.0
EV/EBITDA (x)	27.9	24.5	21.0	18.2
PE (x)	45.2	41.0	35.0	30.7
P/BV (x)	4.9	4.5	4.2	3.8

Key Data

SIEM.BO | SIEM IN

52-W High / Low	Rs.1,175 / Rs.841
Sensex / Nifty	38,701 / 11,605
Market Cap	Rs.408bn/ \$ 5,858m
Shares Outstanding	356m
3M Avg. Daily Value	Rs.1111.31m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	2.74
Domestic Institution	11.17
Public & Others	11.09
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	11.9	21.7	2.0
Relative	6.0	8.4	(11.4)

Ashwani Sharma

ashwanisharma@plindia.com | 91-22-66322247

Khushboo Parekh

khushbooparekh@plindia.com | 91-22-66322257

Capex Recovery elusive, Digital key to growth

Quick Pointers:

- SIEM is transforming itself into a complete digital/automation solution provider from Product/Project Company.
- Private capex remains muted with some green shoots in sectors like Auto, Cement, F&B etc.

Our management meeting with SIEM indicated the sustained thrust of the company to transform itself from being a product company (62-65% of sales) to a complete solution provider. SIEM is focused on 1) Digitization and localization 2) Creating smart infrastructure and 3) Increasing customer by leveraging its strong balance sheet and offering innovative financing. SIEM will continue to focus on Automation, Signaling and Electrification (Railways) in the Mobility division (10% of sales) post rejection of Siemens Alstom mobility merger by EU. Capex cycle is yet to show signs of any major revival, however demand for Digit solutions/ automation across segments (Auto, F&B, Cement, Oil & Gas, Sugar etc.) and cost control have enabled have Sales/PAT CAGR 4%/28% in last 4 years. We expect SIEM to deliver earnings CAGR of 14% over the next two years (FY18-20E). We arrive at target price of Rs1221 as we rollover target price to March21 EPS. We maintain Accumulate.

Large order opportunity continues to be elusive: SIEM's order inflow was up 8% YoY in FY18 (adjusting for HVDC order) mainly on account of growth in base orders (<than Rs 1bn size, up 28% YoY). Historically, large orders were part of Power & Gas and Energy Management segments. However, both the segments witnessed a decline in order inflow during FY18 (-7%/-25%) mainly due to lack of opportunities in thermal power generation and decline in Power Grid Capex in the transmission infrastructure. SEB's capex has been mainly in lower range 200-400 KV, resulting in growth of base orders. Also, private sector (75% of SIEM's sales) capex continues to be muted which makes large order opportunity elusive from near to medium term perspective. However, order inflow in other businesses is stabilizing which will continue to provide a steady visibility for SIEM.

Mobility business intact due to global deal rejection by EU: SIEM's management indicated that the Mobility business (revenue contribution/EBIT Margin – 8%/10.3% in FY18) remains the same post EU commission blocked the proposed Siemen-Alstom's mobility merger. Any new structuring of the segment would depend upon Siemens AG (Parent's) revised arrangement.

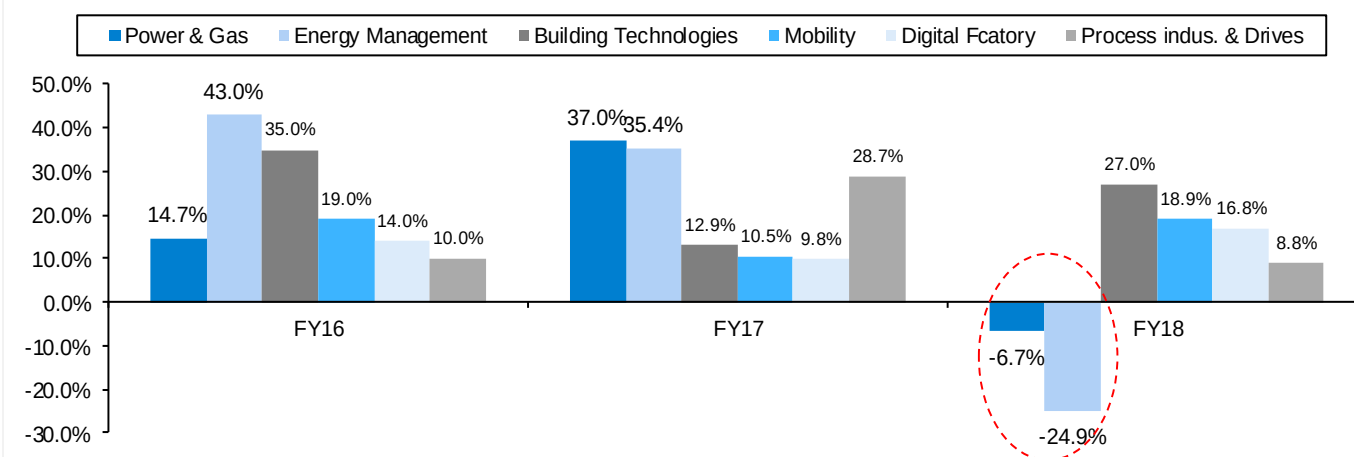
Transforming into a complete solution-based provider: SIEM is transforming itself from a product company to a complete solution provider which will help customers find solutions for business challenges. The company is currently executing 100 digital projects with 150 clients. It has started to see benefits of MindSphere Application centers enabling clients 1) reducing ramp-up/ramp-down time, 2) improving product life; and 3) reduction in power consumption. Below is one of the orders received by SIEM from Vedanta which gives us some clarity on the kind of work done under digital solutions.

Digitalisation/Automation is the key going forward

While there is immense opportunity in digitalization space, meaningful earning contribution is farfetched.

May, 2017: Siemens Limited announced that it has secured an order for Digital Fleet Center Solution from Vedanta Ltd., India's leading natural resources company, to connect its power plant assets at Talwandi Sabo Power Plant (TSPL) in Punjab and Bharat Aluminum Company Limited (BALCO) in Chhattisgarh. Digitally linking these critical power units to Vedanta's monitoring station will serve to analyze huge amounts of fleet data for continuous monitoring and diagnostics of these assets. This will enable proactive maintenance to help reduce unplanned outages, thereby, optimizing costs and increasing availability of Vedanta's power assets. Siemens will initially provide three years of maintenance and service support to help ensure continued reliability and operational performance.

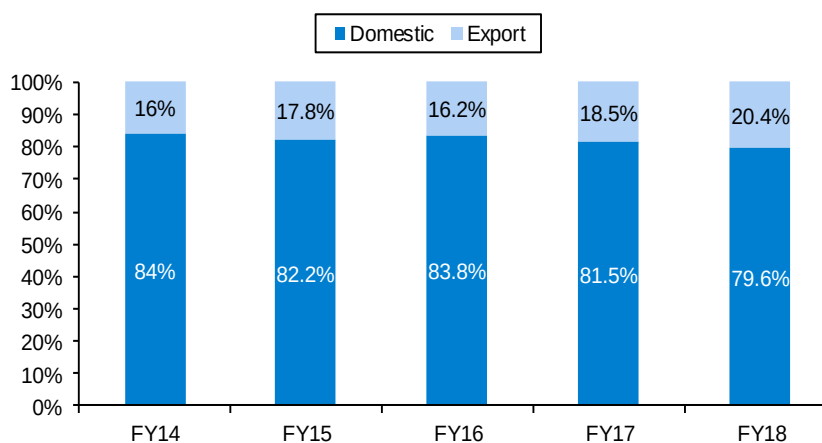
Exhibit 1: Trend in Segment-wise order inflow growth



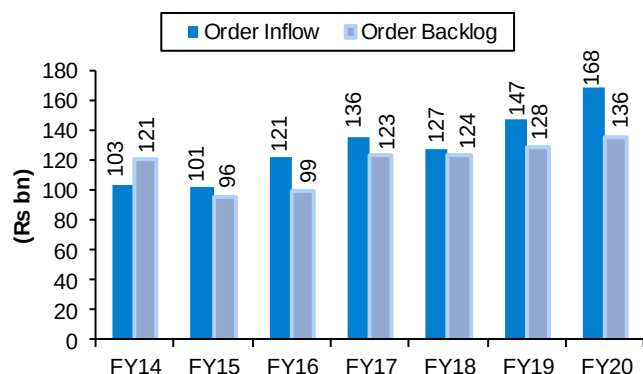
Source: Company, PL

Management will focus more on the domestic business led by strong growth opportunities.

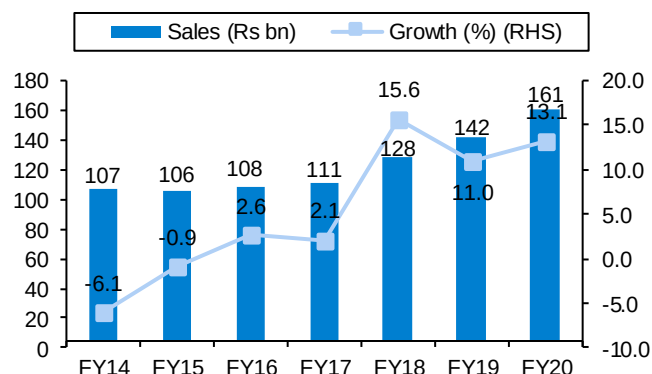
Exhibit 2: Domestic market continues to offer strong growth opportunities



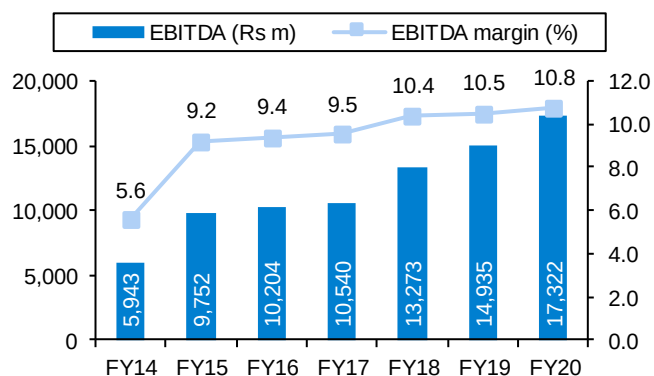
Source: Company, PL

Exhibit 3: Order inflow growth mainly led by base orders


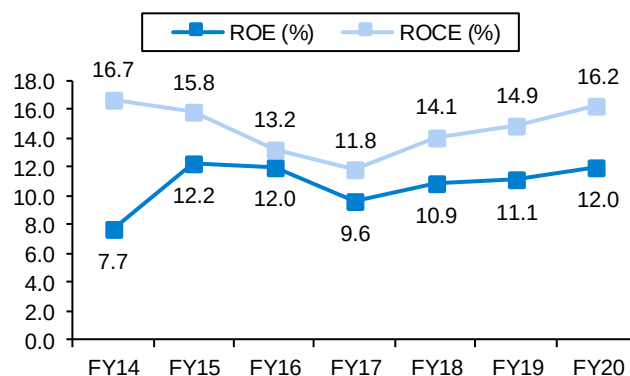
Source: Company, PL

Exhibit 4: Trend in sales growth


Source: Company, PL

Exhibit 5: EBITDA margin improving gradually


Source: Company, PL

Exhibit 6: RoE/RoCE profile


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Sep	FY18	FY19E	FY20E	FY21E
Net Revenues	1,27,953	1,42,064	1,60,717	1,78,480
YoY gr. (%)	15.6	11.0	13.1	11.1
Cost of Goods Sold	57,072	62,721	70,876	78,710
Gross Profit	70,881	79,343	89,841	99,771
Margin (%)	55.4	55.9	55.9	55.9
Employee Cost	14,573	17,048	19,286	21,418
Other Expenses	13,831	15,396	17,071	18,450
EBITDA	13,273	14,935	17,322	19,745
YoY gr. (%)	25.9	12.5	16.0	14.0
Margin (%)	10.4	10.5	10.8	11.1
Depreciation and Amortization	1,977	2,076	2,171	2,266
EBIT	11,296	12,859	15,151	17,479
Margin (%)	8.8	9.1	9.4	9.8
Net Interest	82	86	90	95
Other Income	2,801	2,538	2,869	3,040
Profit Before Tax	14,015	15,311	17,930	20,423
Margin (%)	11.0	10.8	11.2	11.4
Total Tax	5,003	5,359	6,275	7,148
Effective tax rate (%)	35.7	35.0	35.0	35.0
Profit after tax	9,012	9,952	11,654	13,275
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	9,012	9,952	11,654	13,275
YoY gr. (%)	(20.7)	10.4	17.1	13.9
Margin (%)	7.0	7.0	7.3	7.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	9,012	9,952	11,654	13,275
YoY gr. (%)	(20.7)	10.4	17.1	13.9
Margin (%)	7.0	7.0	7.3	7.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	9,012	9,952	11,654	13,275
Equity Shares O/s (m)	356	356	356	356
EPS (Rs)	25.3	28.0	32.7	37.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Sep	FY18	FY19E	FY20E	FY21E
Non-Current Assets				
Gross Block	12,488	13,112	13,712	14,312
Tangibles	12,454	13,077	13,677	14,277
Intangibles	34	36	36	36
Acc: Dep / Amortization	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	12,488	13,112	13,712	14,312
Tangibles	12,454	13,077	13,677	14,277
Intangibles	34	36	36	36
Capital Work In Progress	625	656	656	656
Goodwill	282	282	282	282
Non-Current Investments	6,740	7,368	8,199	8,990
Net Deferred tax assets	2,697	2,697	2,697	2,697
Other Non-Current Assets	9,594	10,652	12,051	13,383
Current Assets				
Investments	-	-	-	-
Inventories	11,504	12,455	14,090	15,648
Trade receivables	37,469	40,868	46,234	51,344
Cash & Bank Balance	36,916	41,734	44,220	48,386
Other Current Assets	3,887	3,892	4,844	5,379
Total Assets	1,43,363	1,56,292	1,72,523	1,89,438
Equity				
Equity Share Capital	712	712	712	712
Other Equity	82,277	88,916	96,690	1,05,546
Total Network	82,989	89,628	97,402	1,06,258
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	2,153	2,196	2,240	2,285
Other non current liabilities	606	636	668	702
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	30,582	33,862	38,308	42,542
Other current liabilities	27,033	29,970	33,905	37,652
Total Equity & Liabilities	1,43,363	1,56,292	1,72,523	1,89,438

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Sep	FY18	FY19E	FY20E	FY21E
PBT	14,015	15,311	17,930	20,423
Add. Depreciation	1,977	2,076	2,171	2,266
Add. Interest	82	86	90	95
Less Financial Other Income	2,801	2,538	2,869	3,040
Add. Other	(1,345)	(2,538)	(2,869)	(3,040)
Op. profit before WC changes	14,729	14,935	17,322	19,745
Net Changes-WC	(7,885)	522	(2,460)	(1,966)
Direct tax	(5,846)	(5,359)	(6,275)	(7,148)
Net cash from Op. activities	998	10,098	8,587	10,631
Capital expenditures	(1,791)	(2,732)	(2,771)	(2,866)
Interest / Dividend Income	2,690	2,538	2,869	3,040
Others	(1,666)	(1,686)	(2,229)	(2,123)
Net Cash from Invst. activities	(767)	(1,880)	(2,132)	(1,950)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	(560)	(656)	(747)
Dividend paid	(3,000)	(2,753)	(3,224)	(3,672)
Interest paid	(53)	(86)	(90)	(95)
Others	-	-	-	-
Net cash from Fin. activities	(3,053)	(3,399)	(3,970)	(4,514)
Net change in cash	(2,822)	4,818	2,485	4,167
Free Cash Flow	(908)	7,366	5,816	7,765

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Sep	Q3FY18	Q4FY18	Q1FY19	Q2FY19E
Net Revenue	30,730	39,392	28,071	36,946
YoY gr. (%)	15.9	25.4	15.5	12.5
Raw Material Expenses	20,388	26,889	18,444	24,276
Gross Profit	10,342	12,503	9,627	12,671
Margin (%)	33.7	31.7	34.3	34.3
EBITDA	3,023	4,186	3,065	3,965
YoY gr. (%)	(6.4)	38.5	(26.8)	29.4
Margin (%)	9.8	10.6	10.9	10.7
Depreciation / Depletion	500	507	532	550
EBIT	2,523	3,679	2,533	3,415
Margin (%)	8.2	9.3	9.0	9.2
Net Interest	4	51	2	2
Other Income	692	764	877	895
Profit before Tax	3,211	4,392	3,408	4,308
Margin (%)	10.4	11.1	12.1	11.7
Total Tax	1,167	1,600	1,128	1,465
Effective tax rate (%)	36.3	36.4	33.1	34.0
Profit after Tax	2,044	2,792	2,280	2,843
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,044	2,792	2,280	2,843
YoY gr. (%)	25.5	(55.2)	19.7	29.4
Margin (%)	6.7	7.1	8.1	7.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,044	2,792	2,280	2,843
YoY gr. (%)	25.5	(55.2)	19.7	29.4
Margin (%)	6.7	7.1	8.1	7.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,044	2,792	2,280	2,843
Avg. Shares O/s (m)	356	356	356	356
EPS (Rs)	5.7	7.8	6.4	8.0

Source: Company Data, PL Research

Key Financial Metrics

Y/e Sep	FY18	FY19E	FY20E	FY21E
Per Share(Rs)				
EPS	25.3	28.0	32.7	37.3
CEPS	30.9	33.8	38.8	43.7
BVPS	233.1	251.8	273.6	298.5
FCF	(2.6)	20.7	16.3	21.8
DPS	7.0	7.7	9.1	10.3
Return Ratio(%)				
RoCE	14.1	14.9	16.2	17.2
ROIC	16.9	18.8	20.0	21.3
RoE	11.3	11.5	12.5	13.0
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.5)	(0.5)	(0.5)
Net Working Capital (Days)	52	50	50	50
Valuation(x)				
PER	45.2	41.0	35.0	30.7
P/B	4.9	4.5	4.2	3.8
P/CEPS	37.1	33.9	29.5	26.2
EV/EBITDA	27.9	24.5	21.0	18.2
EV/Sales	2.9	2.6	2.3	2.0
Dividend Yield (%)	0.6	0.7	0.8	0.9

Source: Company Data, PL Research

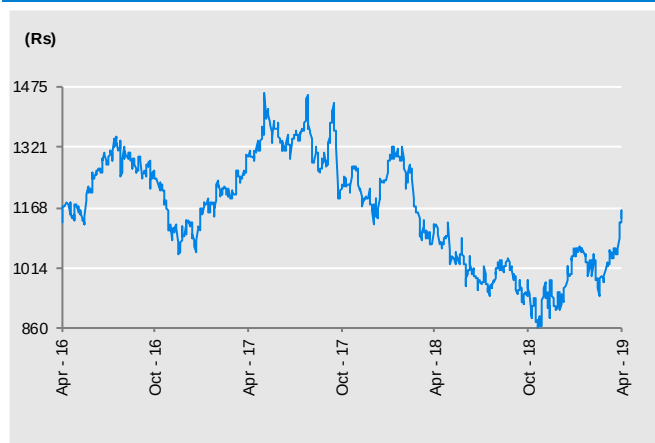
Key Operating Metrics

Y/e Sep	FY18	FY19E	FY20E	FY21E
Revenues (Rs m)				
Power and Gas	15,473	16,247	17,709	19,303
Energy Management	54,628	62,822	72,874	81,619
Building Technologies	5,182	5,959	7,151	8,581
Mobility	10,516	11,042	11,594	12,174
Digital Factory	24,348	28,000	33,040	37,996
Process Industries and Drives	22,126	23,232	24,394	25,614
Healthcare	0	0	0	0
Others	1,386	1,455	1,528	1,604
Eliminations	-5,706	-6,694	-7,573	-8,410
Total	1,27,953	1,42,064	1,60,717	1,78,480
EBIT (Rs m)				
Power and Gas	2460	2,745	2,993	3,262
Energy Management	4203	5,148	6,336	7,504
Building Technologies	444	540	684	864
Mobility	1087	870	990	1,086
Digital Factory	1962	2,312	2,795	3,290
Process Industries and Drives	769	854	945	1,044
Healthcare	0	0	0	0
Others	371	390	409	429
Total	11,296	12,859	15,151	17,479
EBIT Margins (%)				
Power and Gas	15.9	16.9	16.9	16.9
Energy Management	7.7	8.2	8.7	9.2
Building Technologies	8.6	9.1	9.6	10.1
Mobility	10.3	7.9	8.5	8.9
Digital Factory	8.1	8.3	8.5	8.7
Process Industries and Drives	3.5	3.7	3.9	4.1
Healthcare	NA	NA	NA	NA
Others	26.8	26.8	26.8	26.8

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Apr-18	Accumulate	1,401	1,078
2	03-May-18	Accumulate	1,401	1,128
3	11-Jun-18	Accumulate	1,401	1,239
4	10-Jul-18	Accumulate	1,401	975
5	05-Oct-18	Accumulate	1,401	963
6	05-Apr-19	Accumulate	1,146	1,147

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	1,320	1,378
2	Apar Industries	Accumulate	762	681
3	Bharat Electronics	BUY	112	97
4	BHEL	Reduce	78	73
5	Engineers India	BUY	136	120
6	GE T&D India	Reduce	278	278
7	Kalpataru Power Transmission	BUY	547	460
8	KEC International	BUY	400	290
9	Larsen & Toubro	BUY	1,728	1,374
10	Power Grid Corporation of India	BUY	247	196
11	Siemens	Accumulate	1,146	1,147
12	Thermax	Accumulate	1,164	960
13	Triveni Turbine	BUY	132	111
14	Voltamp Transformers	BUY	1,380	1,125

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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