Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Siemens (SIEM IN)

Rating: ACCUMULATE | CMP: Rs1,253 | TP: Rs1,263

May 29, 2019

Innovation Day 2019

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	**ACCUMULATE**		**ACCUMULATE**	
Target Price	**1,263**		**1,263**	
Sales (Rs. m)	162,287	184,447	162,287	184,447
% Chng.	-	-		
EBITDA (Rs. m)	17,848	20,557	17,848	20,557
% Chng.	-	-		
EPS (Rs.)	33.7	38.8	33.7	38.8
% Chng.	-	-		

Key Financials

	FY18	FY19	FY19E	FY20E
Sales (Rs. m)	110,647	127,953	142,604	162,287
EBITDA (Rs. m)	10,540	13,273	15,288	17,848
Margin (%)	*9.5*	*10.4*	*10.7*	*11.0*
PAT (Rs. m)	11,368	9,012	10,182	11,997
EPS (Rs.)	31.9	25.3	28.6	33.7
Gr. (%)	*(61.0)*	*(20.7)*	*13.0*	*17.8*
DPS (Rs.)	6.0	7.0	7.9	9.3
Yield (%)	*0.5*	*0.6*	*0.6*	*0.7*
RoE (%)	*15.7*	*11.3*	*11.8*	*12.8*
RoCE (%)	*11.8*	*14.1*	*15.3*	*16.7*
EV/Sales (x)	3.7	3.2	2.8	2.5
EV/EBITDA (x)	38.4	30.8	26.4	22.5
PE (x)	39.2	49.5	43.8	37.2
P/BV (x)	5.8	5.4	5.0	4.6

Key Data	SIEM.BO | SIEM IN
52-W High / Low	Rs.1,286 / Rs.841
Sensex / Nifty	39,502 / 11,861
Market Cap	Rs.446bn/ $ 6,386m
Shares Outstanding	356m
3M Avg. Daily Value	Rs.1218.9m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	2.29
Domestic Institution	11.35
Public & Others	11.36
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	6.2	36.0	19.4
Relative	5.1	24.5	5.6

Ashwani Sharma
ashwanisharma@plindia.com | 91-22-66322247

Khushboo Parekh
khushbooparekh@plindia.com | 91-22-66322257

Getting smarter with digitalization

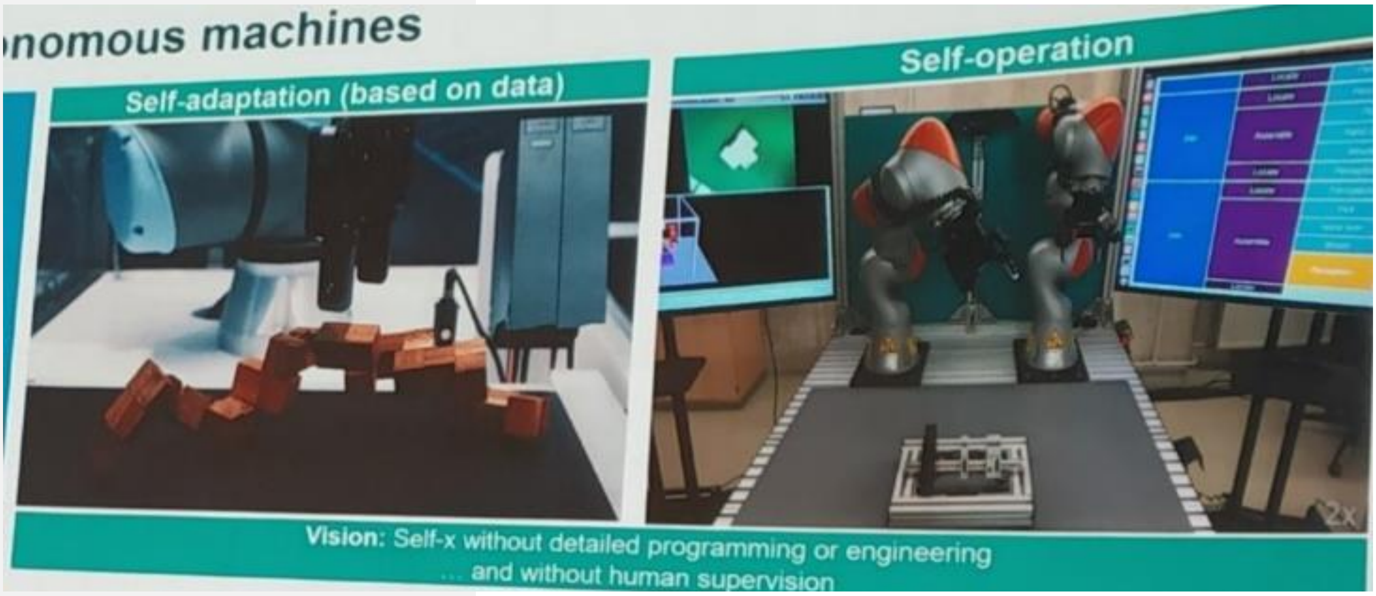
Siemens (SIEM) hosted 2nd edition of Innovation day in Mumbai where it highlighted its current capabilities and future technologies in the digitalization space. Siemens showcased its capabilities in digitalization viz. Internet of Things (IOT), Artificial Intelligence (AI), Digital Twin, Mindsphere and Next47. We believe that SIEM's key verticals like Smart Infrastructure (E-mobility, Micro-grids, Energy Storage, intelligent buildings and IoT) and Digital Industries (factory Automation, Motion Control, Process Automation) which has higher digital content to witness strong growth over medium to long term perspective. The stock is currently trading at 44x/37.5x FY19/FY20E. Retain Accumulate

Digitalization across the business spectrum: Under its digitalization/automation drive, SIEM continue to bring digitalization across its business spectrum (Energy, Infrastructure, Discrete & Process Industries, Mobility) to provide customers with advantages such as quick uptime, speed, flexibility, quality, efficiency and security (Plant security, network security and System Integrity). This has become reality due to its key technical capabilities (Internet of Things (IOT), Artificial Intelligence (AI), Digital Twin, Mindsphere). Over the years, the ecosystem of the company grown with several technology giants on board for eg. Atos, Accenture, TCS, Infosys, HCL System, Tech Mahindra, Amazon, Microsoft Azure, Alibaba Cloud etc.

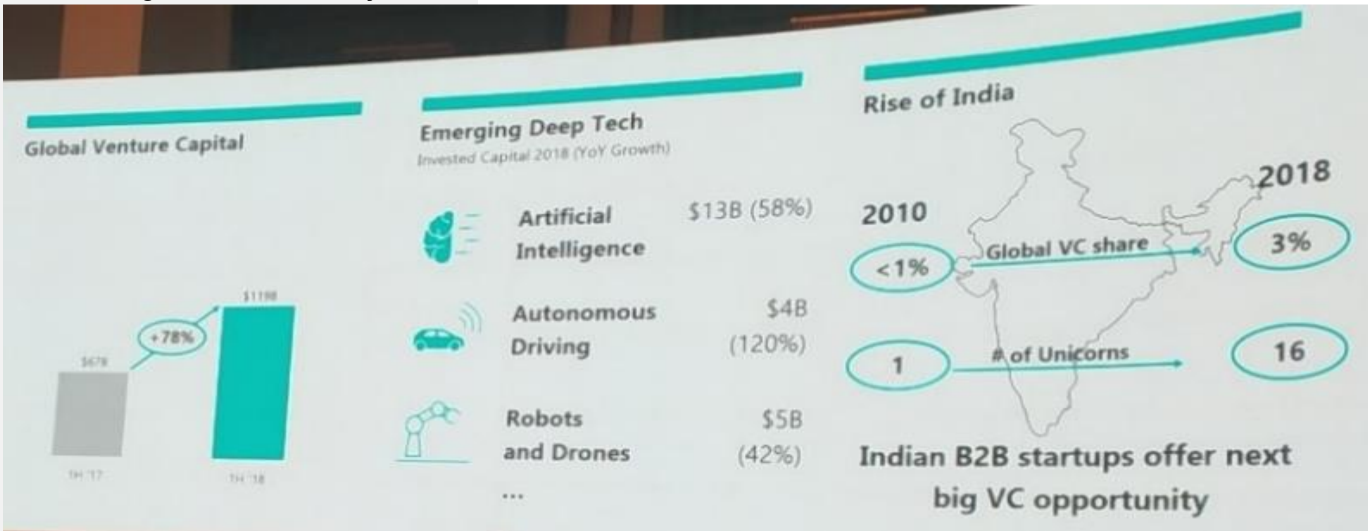
Digital enterprise Suite – "Visual to real world": The Digital Enterprise Suite of SIEM starts from product designing to actual implementation in the market. It also services to support the digital transformation over a period of time. It mainly caters to the Process Automation (Pharmaceutical, chemicals, Cement etc) and Discrete Automation (Automotive and Food & Beverages). The Digital Enterprise also provides services like tier 1 vendor monitoring of large manufacturing companies which reduces the testing time after final product output.

India- Digitalization to pick-up gradually: SIEM at its Kalwa based digital factory continues to expand product variants (from 77 to 180 now) working on reducing quality checks from 62 to 22. We expect digitalization to pick-up gradually in India due to apprehension on any meaningful results, fear of job cuts, data security etc. SIEM is currently executing 100 plus digital projects across 150 customers and verticals including power generation, T&D, Smart Cities, oil & gas, pharmaceuticals, etc. While adoption will require acceptance/change by managements, SIEM acknowledged that focus on improving operating efficiency will lead to digitalization gaining momentum in country.

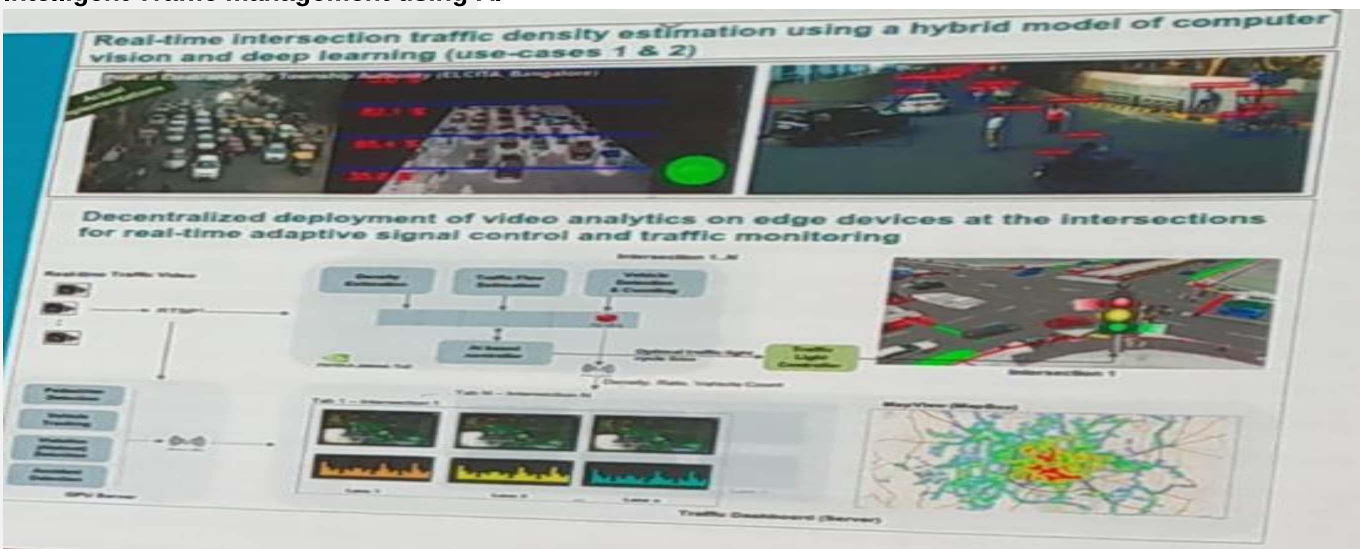
AI enabled Autonomous machines:

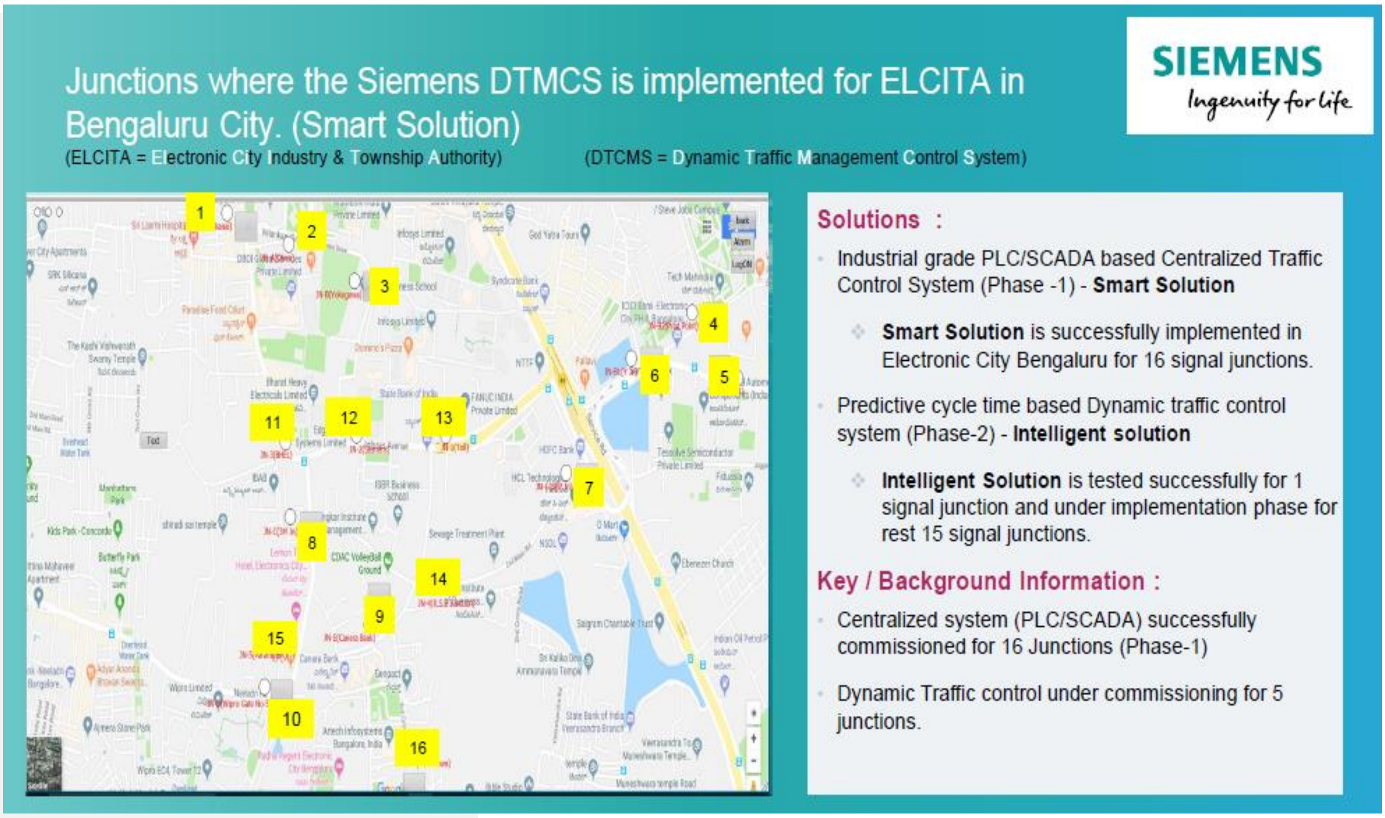


State of the global venture ecosystem:

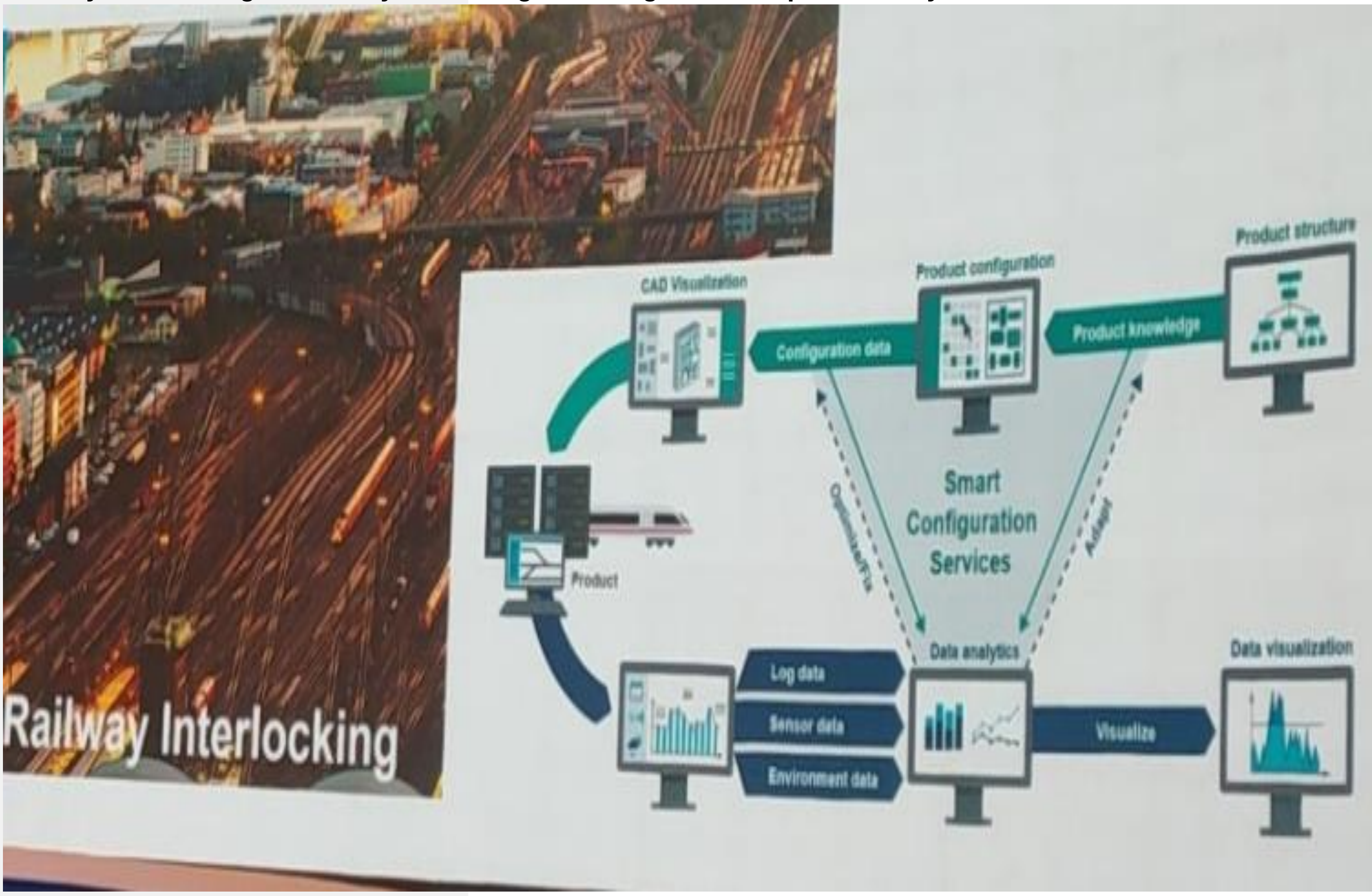


Intelligent Traffic management using AI

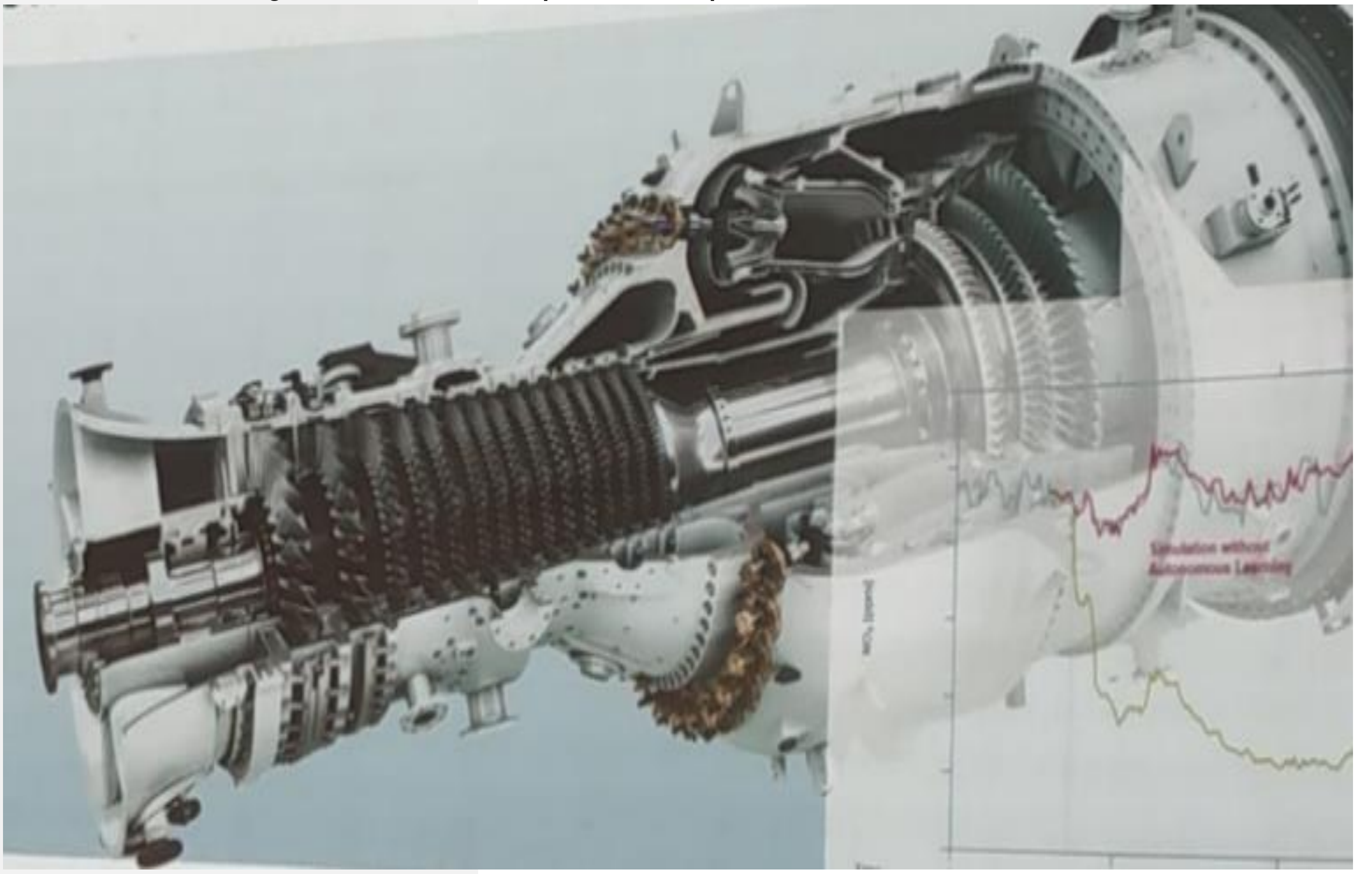




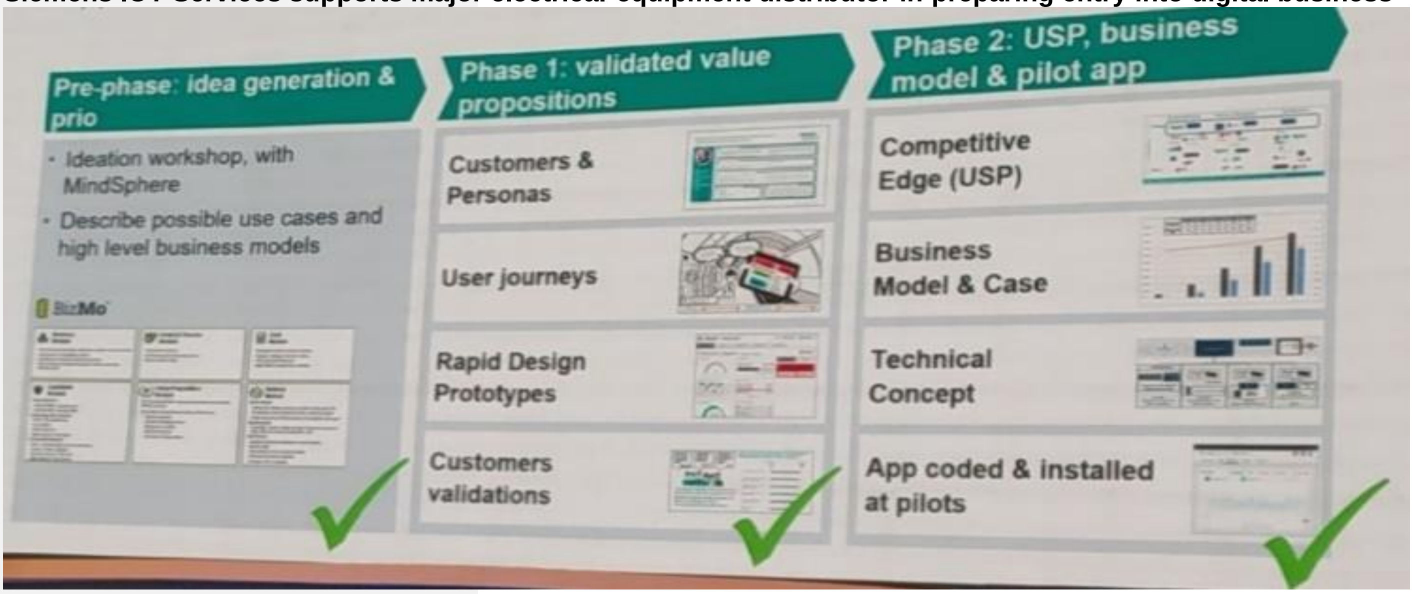
Railway Interlocking Control System using AI intelligence to improve safety:



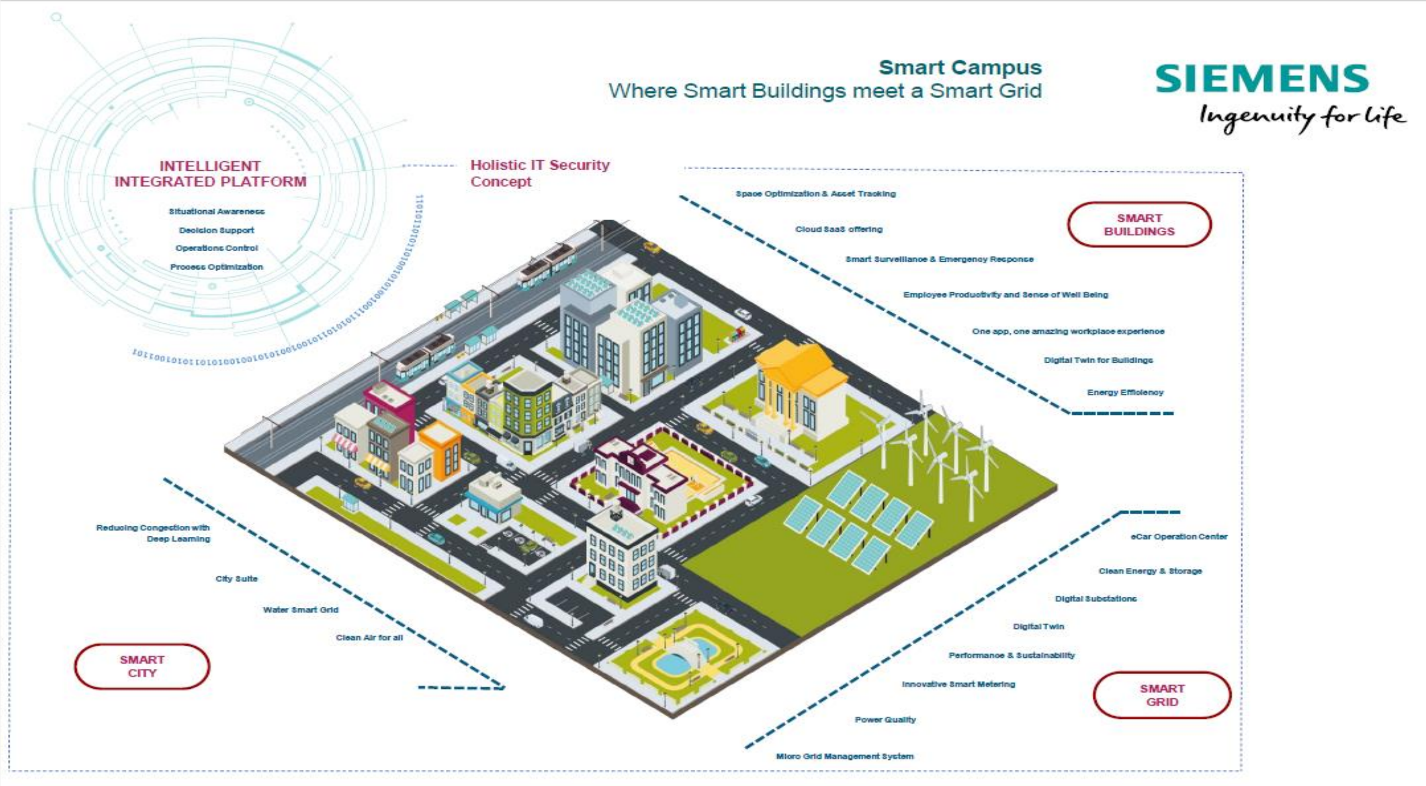
AI Autonomous learning for turbine control for performance optimization

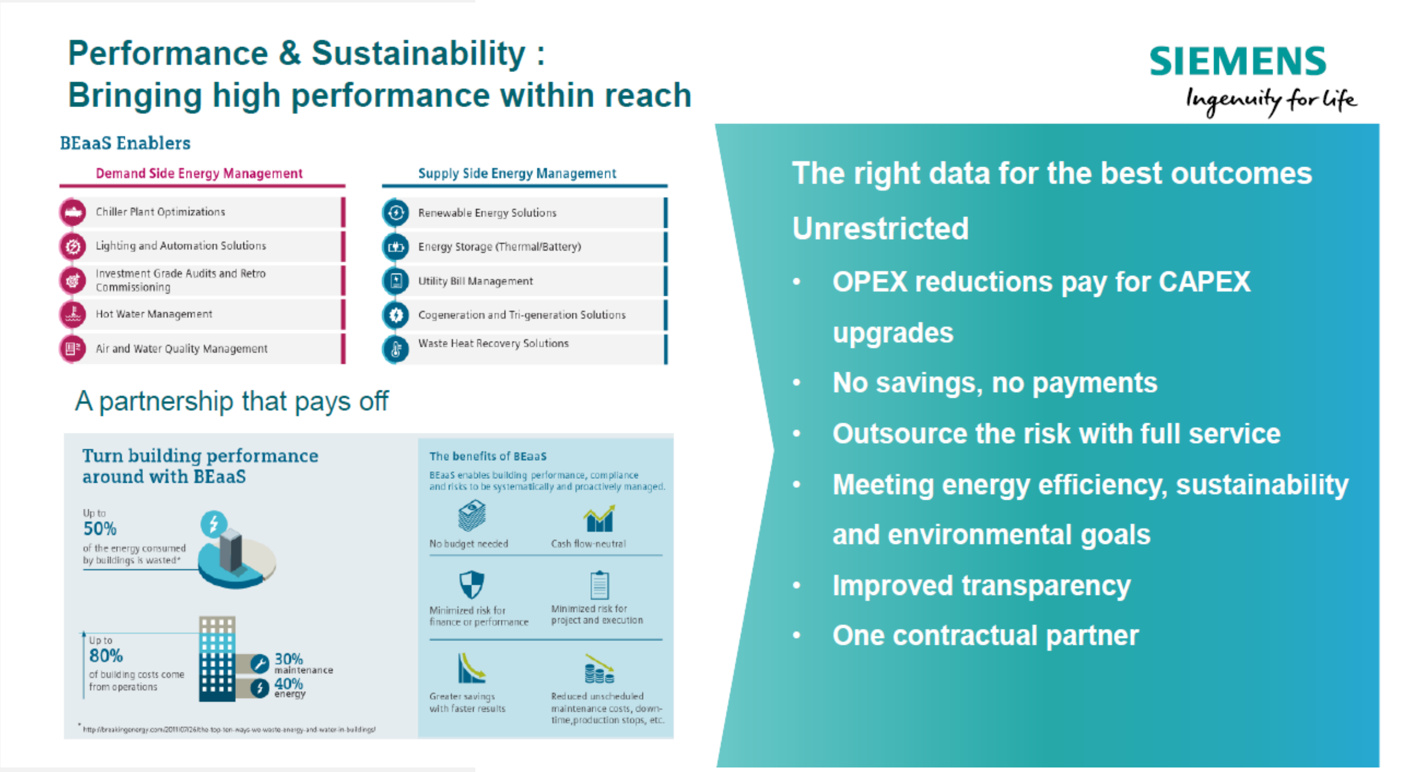


Siemens IOT Services supports major electrical equipment distributor in preparing entry into digital business

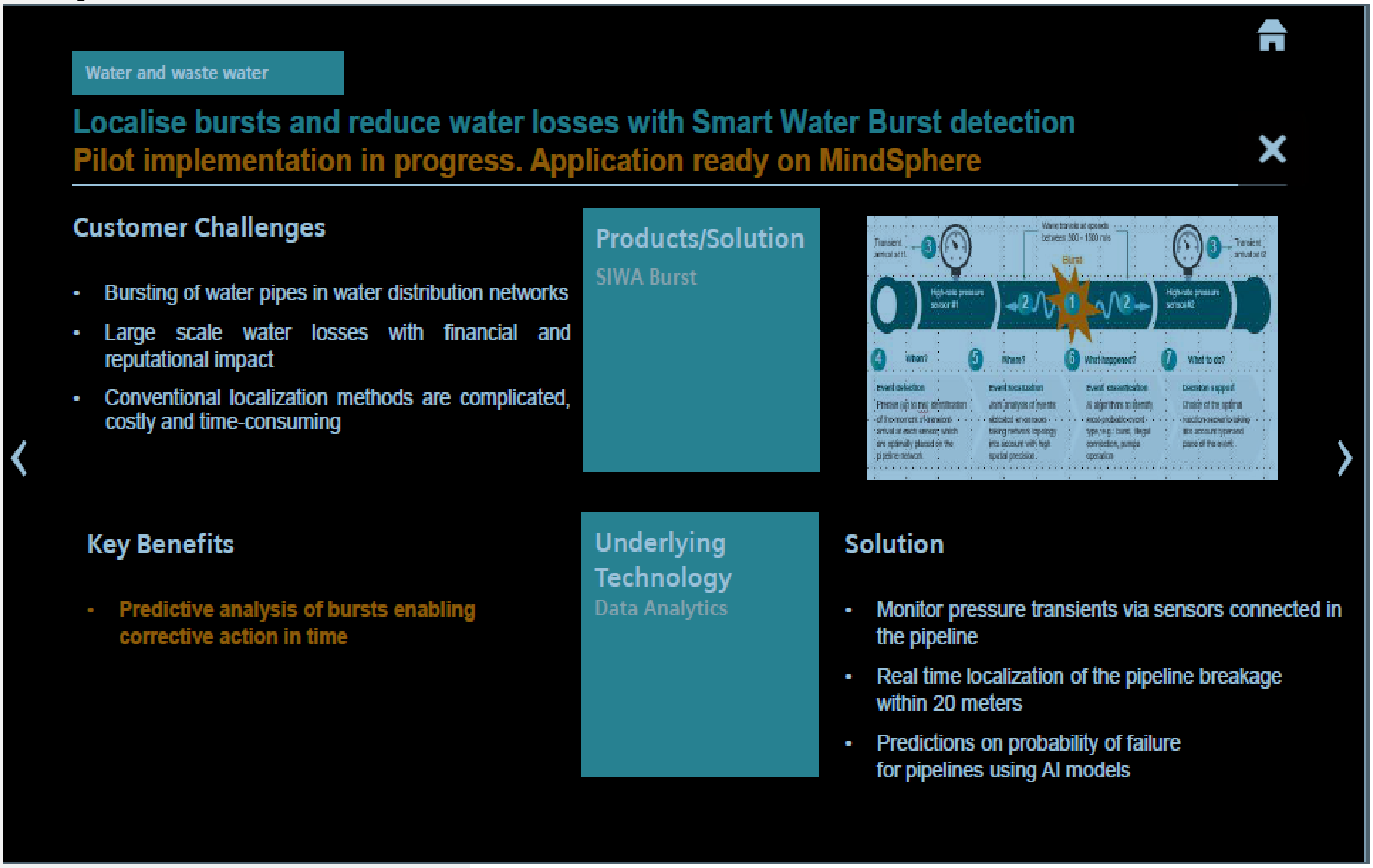


Smart Infrastructure of the future…





Saving water with smart water burst detection



Financials

Income Statement (Rs m)

Y/e Sep	FY18	FY19	FY19E	FY20E
Net Revenues	**110,647**	**127,953**	**142,604**	**162,287**
YoY gr. (%)	*2.1*	*15.6*	*11.5*	*13.8*
Cost of Goods Sold	53,387	57,072	62,959	71,569
Gross Profit	57,260	70,881	79,645	90,718
Margin (%)	*51.8*	*55.4*	*55.9*	*55.9*
Employee Cost	14,024	14,573	17,113	19,474
Other Expenses	12,278	13,831	15,158	16,881
EBITDA	**10,540**	**13,273**	**15,288**	**17,848**
YoY gr. (%)	*3.3*	*25.9*	*15.2*	*16.7*
Margin (%)	*9.5*	*10.4*	*10.7*	*11.0*
Depreciation and Amortization	1,978	1,977	2,076	2,171
EBIT	**8,562**	**11,296**	**13,212**	**15,677**
Margin (%)	*7.7*	*8.8*	*9.3*	*9.7*
Net Interest	79	82	86	90
Other Income	2,532	2,801	2,538	2,871
Profit Before Tax	**16,690**	**14,015**	**15,664**	**18,457**
Margin (%)	*15.1*	*11.0*	*11.0*	*11.4*
Total Tax	5,323	5,003	5,482	6,460
Effective tax rate (%)	*31.9*	*35.7*	*35.0*	*35.0*
Profit after tax	**11,368**	**9,012**	**10,182**	**11,997**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**11,368**	**9,012**	**10,182**	**11,997**
YoY gr. (%)	*(61.0)*	*(20.7)*	*13.0*	*17.8*
Margin (%)	*10.3*	*7.0*	*7.1*	*7.4*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**11,368**	**9,012**	**10,182**	**11,997**
YoY gr. (%)	*(61.0)*	*(20.7)*	*13.0*	*17.8*
Margin (%)	*10.3*	*7.0*	*7.1*	*7.4*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,368	9,012	10,182	11,997
Equity Shares O/s (m)	**356**	**356**	**356**	**356**
EPS (Rs)	**31.9**	**25.3**	**28.6**	**33.7**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Sep	FY18	FY19	FY19E	FY20E
Non-Current Assets				
Gross Block	**12,289**	**12,488**	**13,112**	**13,712**
Tangibles	12,234	12,454	13,077	13,677
Intangibles	55	34	36	36
Acc: Dep / Amortization	**-**	**-**	**-**	**-**
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	**12,289**	**12,488**	**13,112**	**13,712**
Tangibles	12,234	12,454	13,077	13,677
Intangibles	55	34	36	36
Capital Work In Progress	1,430	625	656	656
Goodwill	282	282	282	282
Non-Current Investments	8,731	6,740	7,392	8,269
Net Deferred tax assets	2,482	2,697	2,697	2,697
Other Non-Current Assets	2,749	9,594	10,693	12,168
Current Assets				
Investments	-	-	-	-
Inventories	10,214	11,504	12,502	14,228
Trade receivables	34,886	37,469	41,023	46,685
Cash & Bank Balance	40,748	36,916	41,762	44,233
Other Current Assets	910	3,887	3,907	4,891
Total Assets	**131,382**	**143,363**	**156,688**	**173,610**
Equity				
Equity Share Capital	712	712	712	712
Other Equity	76,194	82,277	89,069	97,072
Total Networth	**76,906**	**82,989**	**89,781**	**97,784**
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	2,028	2,153	2,196	2,240
Other non current liabilities	595	606	636	668
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	26,640	30,582	33,991	38,682
Other current liabilities	25,213	27,033	30,084	34,236
Total Equity & Liabilities	**131,382**	**143,363**	**156,687**	**173,610**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Sep	FY18	FY19	FY19E	FY20E
PBT	16,690	14,015	15,664	18,457
Add. Depreciation	1,978	1,977	2,076	2,171
Add. Interest	79	82	86	90
Less Financial Other Income	2,532	2,801	2,538	2,871
Add. Other	(6,808)	(1,345)	(2,538)	(2,871)
Op. profit before WC changes	11,939	14,729	15,288	17,848
Net Changes-WC	1,917	(7,885)	461	(2,580)
Direct tax	(8,122)	(5,846)	(5,482)	(6,460)
Net cash from Op. activities	**5,734**	**998**	**10,267**	**8,808**
Capital expenditures	3,347	(1,791)	(2,732)	(2,771)
Interest / Dividend Income	2,121	2,690	2,538	2,871
Others	7,756	(1,666)	(1,751)	(2,352)
Net Cash from Invt. activities	**13,224**	**(767)**	**(1,945)**	**(2,253)**
Issue of share cap. / premium	-	-	-	-
Debt changes	(252)	-	(573)	(676)
Dividend paid	(2,572)	(3,000)	(2,816)	(3,319)
Interest paid	(28)	(53)	(86)	(90)
Others	-	-	-	-
Net cash from Fin. activities	**(2,852)**	**(3,053)**	**(3,476)**	**(4,085)**
Net change in cash	**16,106**	**(2,822)**	**4,846**	**2,471**
Free Cash Flow	2,870	(908)	7,535	6,037

Source: Company Data, PL Research

Key Financial Metrics

Y/e Sep	FY18	FY19	FY19E	FY20E
Per Share(Rs)				
EPS	31.9	25.3	28.6	33.7
CEPS	37.5	30.9	34.4	39.8
BVPS	216.0	233.1	252.2	274.7
FCF	8.1	(2.6)	21.2	17.0
DPS	6.0	7.0	7.9	9.3
Return Ratio(%)				
RoCE	11.8	14.1	15.3	16.7
ROIC	18.3	16.9	19.2	20.6
RoE	15.7	11.3	11.8	12.8
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.4)	(0.5)	(0.5)
Net Working Capital (Days)	61	52	50	50
Valuation(x)				
PER	39.2	49.5	43.8	37.2
P/B	5.8	5.4	5.0	4.6
P/CEPS	33.4	40.6	36.4	31.5
EV/EBITDA	38.4	30.8	26.4	22.5
EV/Sales	3.7	3.2	2.8	2.5
Dividend Yield (%)	0.5	0.6	0.6	0.7

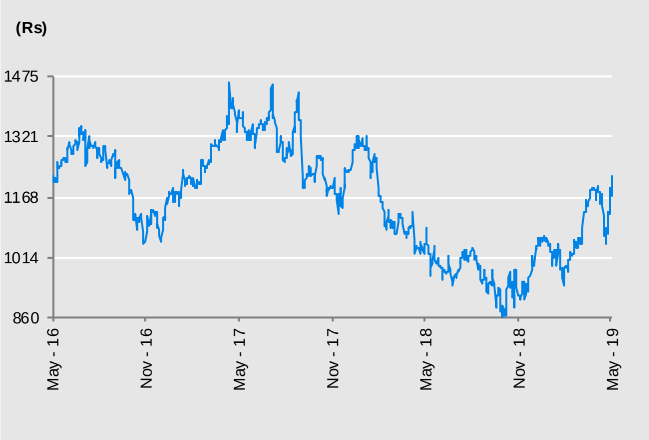
Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Sep	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Net Revenue	**30,730**	**32,834**	**28,071**	**35,496**
YoY gr. (%)	*15.9*	*4.5*	*15.5*	*8.1*
Raw Material Expenses	20,388	22,544	18,444	24,408
Gross Profit	10,342	10,290	9,627	11,088
Margin (%)	*33.7*	*31.3*	*34.3*	*31.2*
EBITDA	**3,023**	**3,228**	**3,065**	**4,100**
YoY gr. (%)	*(6.4)*	*6.8*	*(5.0)*	*33.8*
Margin (%)	*9.8*	*9.8*	*10.9*	*11.6*
Depreciation / Depletion	500	490	532	571
EBIT	**2,523**	**2,738**	**2,533**	**3,529**
Margin (%)	*8.2*	*8.3*	*9.0*	*9.9*
Net Interest	4	11	2	24
Other Income	692	639	877	830
Profit before Tax	**3,211**	**3,366**	**3,408**	**4,335**
Margin (%)	*10.4*	*10.3*	*12.1*	*12.2*
Total Tax	1,167	1,169	1,128	1,532
Effective tax rate (%)	*36.3*	*34.7*	*33.1*	*35.3*
Profit after Tax	**2,044**	**2,197**	**2,280**	**2,803**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**2,044**	**2,197**	**2,280**	**2,803**
YoY gr. (%)	*25.5*	*(64.8)*	*19.7*	*27.6*
Margin (%)	*6.7*	*6.7*	*8.1*	*7.9*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**2,044**	**2,197**	**2,280**	**2,803**
YoY gr. (%)	*25.5*	*(64.8)*	*19.7*	*27.6*
Margin (%)	*6.7*	*6.7*	*8.1*	*7.9*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**2,044**	**2,197**	**2,280**	**2,803**
Avg. Shares O/s (m)	356	356	356	356
EPS (Rs)	**5.7**	**6.2**	**6.4**	**7.9**

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Jun-18	Accumulate	1,401	1,239
2	10-Jul-18	Accumulate	1,401	975
3	5-Oct-18	Accumulate	1,401	963
4	5-Apr-19	Accumulate	1,146	1,147
5	9-Apr-19	Accumulate	1,221	1,145
6	16-May-19	Accumulate	1,263	1,130

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Reduce	1,320	1,454
2	Apar Industries	Accumulate	762	681
3	Bharat Electronics	BUY	112	97
4	BHEL	Hold	77	73
5	Cummins India	Accumulate	841	757
6	Engineers India	BUY	139	108
7	GE T&D India	Reduce	257	263
8	Kalpataru Power Transmission	BUY	565	457
9	KEC International	BUY	352	295
10	Larsen & Toubro	BUY	1,744	1,356
11	Power Grid Corporation of India	BUY	247	196
12	Siemens	Accumulate	1,263	1,130
13	Thermax	Accumulate	1,147	988
14	Triveni Turbine	Accumulate	124	110
15	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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