Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

May 14, 2020

Q2SY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	**BUY**		**BUY**	
Target Price	**1,402**		**1,406**	
Sales (Rs. m)	130,085	152,422	130,085	152,422
% Chng.	-	-		
EBITDA (Rs. m)	13,529	15,852	13,399	15,699
% Chng.	*1.0*	*1.0*		
EPS (Rs.)	29.0	35.0	29.6	35.2
% Chng.	*(1.8)*	*(0.3)*		

Key Financials - Standalone

Y/e Sep	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	137,672	116,652	130,085	152,422
EBITDA (Rs. m)	14,903	10,499	13,529	15,852
Margin (%)	*10.8*	*9.0*	*10.4*	*10.4*
PAT (Rs. m)	10,994	7,955	10,335	12,474
EPS (Rs.)	30.9	22.3	29.0	35.0
Gr. (%)	*22.0*	*(27.6)*	*29.9*	*20.7*
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	*12.7*	*8.5*	*10.3*	*11.4*
RoCE (%)	*14.7*	*8.5*	*10.7*	*11.8*
EV/Sales (x)	2.3	2.8	2.5	2.1
EV/EBITDA (x)	21.7	30.7	23.9	20.3
PE (x)	34.0	46.9	36.1	29.9
P/BV (x)	4.1	3.9	3.6	3.3

Key Data	SIEM.BO | SIEM IN
52-W High / Low	Rs.1,717 / Rs.947
Sensex / Nifty	31,123 / 9,143
Market Cap	Rs.374bn/ $ 4,944m
Shares Outstanding	356m
3M Avg. Daily Value	Rs.1222.77m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	4.21
Domestic Institution	10.20
Public & Others	10.59
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(11.3)	(34.9)	(3.7)
Relative	(12.6)	(15.8)	15.5

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Siemens (SIEM IN)

Rating: BUY | CMP: Rs1,049 | TP: Rs1,402

Performance impacted due to Pandemic

Quick Pointers:

- Revenues declined 21% YoY due to deferred offtake by customers, slow-down in short-cycle business and weak demand from large infrastructure projects.
- Capex spending has been reduced/deferred during 2QSY20 due to slowdown in economy activity on account of global pandemic.

Siemens Ltd (SIEM) reported a weak set of numbers primarily led by deferment in offtake by customers, slowdown in short-cycle business and weak demand environment from large infrastructure projects. As per our estimates, order inflows decline by 20% YoY to ~Rs30bn, thereby leading to 4% YOY decline in order backlog to ~Rs125bn. Management indicated that capex spending will continue to remain weak in the near term due to overall slowdown in the economic activities and various countries facing restriction on anticipation of long-term economic consequences. Further, we believe that the numerous stimulus packages announced by various countries would be helpful to revive the economy in the long run. Management continues to focus on its philosophy of improving profitability and would be highly selective in picking orders.

While there are visible signs of slowdown in the near-term, we remain positive on SIEM from a long-term perspective as the company remains focused on 1) Digitization and localization 2) Creating smart infrastructure and 3) Increasing customers by leveraging its strong balance sheet and offering innovative financing. We have marginally cut our estimates for SY20E/21E to factor in higher than anticipated COVID-19 led business slowdown. The stock is currently trading at 36.1/29.9x SY21/22E earnings. We maintain BUY with revised TP of Rs1402 on 40x SY21E as we believe strong balance sheet will support the valuations.

Covid-19 impacts overall performance: Sales were down 21% YoY due to deferred offtake by customers, slow-down in short-cycle business and weak demand in large infrastructure projects. Mobility/Digital Industries/Gas & Power/Smart Infra de-grew by 30%/25%/21%/21% YoY while Portfolio Companies grew by 4% YoY. Gross margin came in at 59% vs PLe of 56% led by better revenue mix. EBITDA de-grew by 43% YoY with EBITDA margins contracting by 330bps YoY to 8.3% due to higher other expenses (up 40%) impacted by forex and Covid-19. Adj.PAT came in at Rs1.7bn (PLe Rs2.5bn), down 39% YoY due to lower operational efficiency.

Order inflow environment remains challenging: Due to slowdown in auto sector order inflow during the quarter was down 20% YoY at ~Rs30bn owing to slower recovery in capex cycle for infrastructure and industrial segment. SIEM has increased traction from its customer for digitalization solutions which can help them to reduce capex requirements. Management believes incremental OI are expected to be driven by Mobility (particularly Metro) and Data centres. OB stands at Rs125bn providing visibility of 0.9x SY19 revenues which would remain a concern in the short-medium term.

Exhibit 1: Q2SY20 Result Overview (Rs mn)- Results below estimates owing to nation-wide lockdown due to Covid-19

Y/e Sep	Q2SY19	Q3SY19	Q4SY19	Q1SY20	Q2SY20	YoY gr.	QoQ gr.	1HSY20	1HSY19	YoY gr.
Revenue	**35,496**	**31,984**	**41,288**	**26,686**	**28,201**	***-20.6***	***5.7***	**54,887**	**63,567**	***-13.7***
Total Revenues	35,496	31,984	41,288	26,686	28,201	*-20.6*	*5.7*	54,887	63,567	*-13.7*
Expenditure	31,396	28,447	37,232	23,321	25,865	*-17.6*	*10.9*	49,186	56,402	*-12.8*
as % of sales	*88.4*	*88.9*	*90.2*	*87.4*	*91.7*			*89.6*	*88.7*	
Consumption of RM	15,890	14,442	19,759	11,682	11,549	*-27.3*	*-1.1*	23,231	27,272	*-14.8*
as % of sales	*44.8*	*45.2*	*47.9*	*43.8*	*41.0*			*42.3*	*42.9*	
Employee Cost	4,235	3,973	3,440	3,961	4,314	*1.9*	*8.9*	8,275	8,623	*-4.0*
as % of sales	*11.9*	*12.4*	*8.3*	*14.8*	*15.3*			*15.1*	*13.6*	
Other expenditure	11,271	10,032	14,033	7,678	10,002	*-11.3*	*30.3*	17,680	20,507	*-13.8*
as % of sales	*31.8*	*31.4*	*34.0*	*28.8*	*35.5*			*32.2*	*32.3*	
EBITDA	**4,100**	**3,537**	**4,056**	**3,365**	**2,336**	***-43.0***	***-30.6***	**5,701**	**7,165**	***-20.4***
Depreciation	571	512	558	611	708	*24.0*	*15.9*	1,319	1,103	*19.6*
EBIT	**3,529**	**3,025**	**3,498**	**2,754**	**1,628**	***-53.9***	***-40.9***	**4,382**	**6,062**	***-27.7***
Other Income	830	825	1,414	855	806	*-2.9*	*-5.7*	1,661	1,707	*-2.7*
Interest	24	2	86	77	111	*362.5*	*44.2*	188	26	*623.1*
PBT	**4,335**	**3,848**	**4,826**	**3,532**	**2,323**	***-46.4***	***-34.2***	**5,855**	**7,743**	***-24.4***
Total Tax	1,532	1,367	1,520	905	602	*-60.7*	*-33.5*	1,507	2,660	*-43.3*
Reported PAT	**2,803**	**2,481**	**3,306**	**2,627**	**1,721**	***-38.6***	***-34.5***	**4,348**	**5,083**	***-14.5***
Adjusted PAT	**2,803**	**2,481**	**3,306**	**2,627**	**1,721**	***-38.6***	***-34.5***	**4,348**	**5,083**	***-14.5***
Adjusted EPS	**7.9**	**7.0**	**9.3**	**7.4**	**4.8**	***-38.6***	***-34.5***	**12.2**	**14.3**	***-14.5***
Margins (%)										
EBIDTA	11.6	11.1	9.8	12.6	8.3	*(327)*	*(433)*	10.4	11.3	*(88)*
EBIT	9.9	9.5	8.5	10.3	5.8	*(417)*	*(455)*	8.0	9.5	*(155)*
EBT	12.2	12.0	11.7	13.2	8.2	*(398)*	*(500)*	10.7	12.2	*(151)*
PAT	7.9	7.8	8.0	9.8	6.1	*(179)*	*(374)*	7.9	8.0	*(7)*
Effective Tax rate	35.3	35.5	31.5	25.6	25.9	*(943)*	*29*	25.7	34.4	*(861)*

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Sep	FY19	FY20E	FY21E	FY22E
Net Revenues	**137,672**	**116,652**	**130,085**	**152,422**
YoY gr. (%)	*7.6*	*(15.3)*	*11.5*	*17.2*
Cost of Goods Sold	61,474	50,977	56,977	66,761
Gross Profit	76,198	65,675	73,108	85,661
Margin (%)	*55.3*	*56.3*	*56.2*	*56.2*
Employee Cost	16,111	16,331	18,212	21,339
Other Expenses	6,496	6,066	6,114	7,164
EBITDA	**14,903**	**10,499**	**13,529**	**15,852**
YoY gr. (%)	*12.3*	*(29.6)*	*28.9*	*17.2*
Margin (%)	*10.8*	*9.0*	*10.4*	*10.4*
Depreciation and Amortization	2,182	2,546	2,834	2,985
EBIT	**12,721**	**7,953**	**10,695**	**12,867**
Margin (%)	*9.2*	*6.8*	*8.2*	*8.4*
Net Interest	117	467	520	457
Other Income	3,990	3,150	3,642	4,268
Profit Before Tax	**16,594**	**10,636**	**13,817**	**16,677**
Margin (%)	*12.1*	*9.1*	*10.6*	*10.9*
Total Tax	5,600	2,680	3,482	4,203
Effective tax rate (%)	*33.7*	*25.2*	*25.2*	*25.2*
Profit after tax	**10,994**	**7,955**	**10,335**	**12,474**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**10,994**	**7,955**	**10,335**	**12,474**
YoY gr. (%)	*22.0*	*(27.6)*	*29.9*	*20.7*
Margin (%)	*8.0*	*6.8*	*7.9*	*8.2*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**10,994**	**7,955**	**10,335**	**12,474**
YoY gr. (%)	*22.0*	*(27.6)*	*29.9*	*20.7*
Margin (%)	*8.0*	*6.8*	*7.9*	*8.2*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,994	7,955	10,335	12,474
Equity Shares O/s (m)	**356**	**356**	**356**	**356**
EPS (Rs)	**30.9**	**22.3**	**29.0**	**35.0**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Sep	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	**19,640**	**22,140**	**24,640**	**27,140**
Tangibles	19,640	22,140	24,640	27,140
Intangibles	-	-	-	-
Acc: Dep / Amortization	**7,746**	**10,292**	**13,126**	**16,111**
Tangibles	7,746	10,292	13,126	16,111
Intangibles	-	-	-	-
Net fixed assets	**11,894**	**11,848**	**11,514**	**11,029**
Tangibles	11,894	11,848	11,514	11,029
Intangibles	-	-	-	-
Capital Work In Progress	880	880	880	880
Goodwill	-	-	-	-
Non-Current Investments	1,764	2,100	2,342	2,744
Net Deferred tax assets	2,442	2,442	2,442	2,442
Other Non-Current Assets	10,927	10,499	12,358	14,480
Current Assets				
Investments	-	-	-	-
Inventories	11,197	11,186	12,474	14,616
Trade receivables	38,156	39,949	42,768	45,935
Cash & Bank Balance	50,019	50,785	50,156	52,449
Other Current Assets	16,114	19,248	22,114	24,388
Total Assets	**151,141**	**157,576**	**166,964**	**180,239**
Equity				
Equity Share Capital	712	712	712	712
Other Equity	89,782	95,630	103,692	113,422
Total Networth	**90,494**	**96,342**	**104,404**	**114,134**
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	33,052	33,557	32,076	33,408
Other current liabilities	30,037	30,118	32,926	35,139
Total Equity & Liabilities	**151,141**	**157,576**	**166,964**	**180,239**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Sep	FY19	FY20E	FY21E	FY22E
PBT	16,594	10,636	13,817	16,677
Add. Depreciation	2,182	2,546	2,834	2,985
Add. Interest	117	467	520	457
Less Financial Other Income	3,990	3,150	3,642	4,268
Add. Other	(4,764)	-	-	-
Op. profit before WC changes	14,129	13,648	17,171	20,120
Net Changes-WC	4,973	(5,129)	(9,025)	(7,922)
Direct tax	(6,185)	(2,680)	(3,482)	(4,203)
Net cash from Op. activities	**12,917**	**5,839**	**4,665**	**7,995**
Capital expenditures	(336)	(2,500)	(2,500)	(2,500)
Interest / Dividend Income	3,378	-	-	-
Others	(14,570)	1	-	-
Net Cash from Invt. activities	**(11,528)**	**(2,499)**	**(2,500)**	**(2,500)**
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(3,004)	(2,107)	(2,274)	(2,744)
Interest paid	(111)	(467)	(520)	(457)
Others	-	-	-	-
Net cash from Fin. activities	**(3,115)**	**(2,574)**	**(2,794)**	**(3,202)**
Net change in cash	**(1,726)**	**766**	**(629)**	**2,293**
Free Cash Flow	11,720	3,339	2,165	5,495

Source: Company Data, PL Research

Key Financial Metrics

Y/e Sep	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	30.9	22.3	29.0	35.0
CEPS	37.0	29.5	37.0	43.4
BVPS	254.2	270.6	293.3	320.6
FCF	32.9	9.4	6.1	15.4
DPS	-	-	-	-
Return Ratio(%)				
RoCE	14.7	8.5	10.7	11.8
ROIC	23.0	14.0	15.9	16.9
RoE	12.7	8.5	10.3	11.4
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.5)	(0.5)	(0.5)
Net Working Capital (Days)	43	55	65	65
Valuation(x)				
PER	34.0	46.9	36.1	29.9
P/B	4.1	3.9	3.6	3.3
P/CEPS	28.3	35.6	28.4	24.2
EV/EBITDA	21.7	30.7	23.9	20.3
EV/Sales	2.3	2.8	2.5	2.1
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Sep	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Net Revenue	**31,984**	**41,288**	**26,686**	**28,201**
YoY gr. (%)	*4.1*	*4.8*	*(4.9)*	*(20.6)*
Raw Material Expenses	14,442	19,759	11,682	11,549
Gross Profit	17,542	21,529	15,004	16,652
Margin (%)	*54.8*	*52.1*	*56.2*	*59.0*
EBITDA	**3,537**	**4,056**	**3,365**	**2,336**
YoY gr. (%)	*17.0*	*(3.1)*	*9.8*	*(43.0)*
Margin (%)	*11.1*	*9.8*	*12.6*	*8.3*
Depreciation / Depletion	512	558	611	708
EBIT	**3,025**	**3,498**	**2,754**	**1,628**
Margin (%)	*9.5*	*8.5*	*10.3*	*5.8*
Net Interest	2	86	77	111
Other Income	825	1,414	855	806
Profit before Tax	**3,848**	**4,826**	**3,532**	**2,323**
Margin (%)	*12.0*	*11.7*	*13.2*	*8.2*
Total Tax	1,367	1,520	905	602
Effective tax rate (%)	*35.5*	*31.5*	*25.6*	*25.9*
Profit after Tax	**2,481**	**3,306**	**2,627**	**1,721**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**2,481**	**3,306**	**2,627**	**1,721**
YoY gr. (%)	*21.4*	*18.4*	*15.2*	*(38.6)*
Margin (%)	*7.8*	*8.0*	*9.8*	*6.1*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**2,481**	**3,306**	**2,627**	**1,721**
YoY gr. (%)	*21.4*	*18.4*	*15.2*	*(38.6)*
Margin (%)	*7.8*	*8.0*	*9.8*	*6.1*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**2,481**	**3,306**	**2,627**	**1,721**
Avg. Shares O/s (m)	356	356	356	356
EPS (Rs)	**7.0**	**9.3**	**7.4**	**4.8**

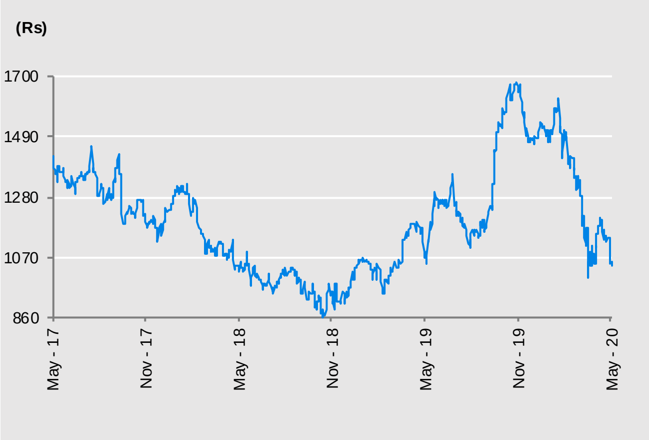
Source: Company Data, PL Research

Key Operating Metrics

Y/e Sep	FY19	FY20E	FY21E	FY22E

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	16-Apr-20	BUY	1,406	1,193
2	12-Feb-20	BUY	1,676	1,496
3	3-Jan-20	BUY	1,687	1,511
4	21-Nov-19	BUY	1,687	1,543
5	3-Oct-19	BUY	1,722	1,526
6	7-Aug-19	BUY	1,263	1,101
7	4-Jul-19	Accumulate	1,263	1,358
8	28-May-19	Accumulate	1,263	1,253
9	16-May-19	Accumulate	1,263	1,130

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	948	916
2	Ahluwalia Contracts (India)	Accumulate	264	142
3	Apar Industries	BUY	587	368
4	Ashoka Buildcon	BUY	147	39
5	Bharat Electronics	Hold	89	70
6	BHEL	Hold	50	21
7	Capacite's Infraprojects	BUY	168	75
8	Container Corporation of India	Accumulate	595	572
9	Cummins India	BUY	493	385
10	Engineers India	BUY	83	67
11	GE T&D India	Hold	91	86
12	H.G. Infra Engineering	BUY	259	164
13	IRB Infrastructure Developers	BUY	127	53
14	ITD Cementation India	BUY	67	33
15	J.Kumar Infraprojects	BUY	218	76
16	Kalpataru Power Transmission	BUY	275	175
17	KEC International	BUY	295	164
18	KNR Constructions	BUY	305	183
19	Larsen & Toubro	BUY	1,361	880
20	NCC	BUY	83	17
21	PNC Infratech	BUY	205	94
22	Power Grid Corporation of India	BUY	205	160
23	Sadbhav Engineering	BUY	128	25
24	Siemens	BUY	1,406	1,193
25	Thermax	Accumulate	855	705
26	Triveni Turbine	BUY	109	66
27	Voltamp Transformers	BUY	1,591	1,379
28	Voltas	BUY	1,244	888

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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