

Siemens (SIEM IN)

Rating: BUY | CMP: Rs1,159 | TP: Rs1,402

August 11, 2020

Q3SY20 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	1,402		1,402	
Sales (Rs. m)	1,30,006	1,52,357	1,30,085	1,52,422
% Chng.	(0.1)	-		
EBITDA (Rs. m)	13,521	15,845	13,529	15,852
% Chng.	(0.1)	-		
EPS (Rs.)	29.0	35.1	29.0	35.0
% Chng.	-	-		

Key Financials - Standalone

Y/e Sep	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	1,37,672	1,11,725	1,30,006	1,52,357
EBITDA (Rs. m)	14,903	10,055	13,521	15,845
Margin (%)	10.8	9.0	10.4	10.4
PAT (Rs. m)	10,994	7,708	10,338	12,480
EPS (Rs.)	30.9	21.7	29.0	35.1
Gr. (%)	22.0	(29.9)	34.1	20.7
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	12.7	8.3	10.3	11.4
RoCE (%)	14.7	7.8	10.7	11.8
EV/Sales (x)	2.6	3.2	2.8	2.4
EV/EBITDA (x)	24.3	35.7	26.8	22.7
PE (x)	37.5	53.5	39.9	33.1
P/BV (x)	4.6	4.3	4.0	3.6

Key Data

SIEM.BO | SIEM IN

52-W High / Low	Rs.1,717 / Rs.947
Sensex / Nifty	38,407 / 11,323
Market Cap	Rs.413bn/ \$ 5,518m
Shares Outstanding	356m
3M Avg. Daily Value	Rs.5770.27m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	4.16
Domestic Institution	10.13
Public & Others	10.71
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.8	(22.5)	(0.7)
Relative	(3.0)	(16.8)	(2.8)

Viral Shah

viralshah@plindia.com | 91-22-66322250

Khushboo Parekh

khushbooparekh@plindia.com | 91-22-66322257

Long-term outlook remains intact

Quick Pointers:

- Revenues declined 59% YoY owing to lower offtake of short cycle orders, nationwide lockdown affecting operations, logistic and supply side issues.
- During 3QSY20, the company incurred Rs2.3bn of additional cost related to Covid-19 which resulted to an operating loss.

Siemens Ltd (SIEM) reported 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 came in at ~Rs19bn (down 37% YoY) on account of delay in ordering activity as orders deferred due to various reason such as re-negotiation of power T&D contracts on back of recent Govt. ban, deferment of private capex such as waste heat recovery and lower government spending, etc. Order backlog stands at ~Rs131bn providing revenue visibility going ahead. Management indicated that capex spending will continue to remain weak in the near term due to overall slowdown in the economic. Management continues to focus on its philosophy of improving profitability and would be highly selective in picking orders.

We believe slowdown would continue in the near-term, but remain positive on SIEM from a long-term perspective and expect company to recover faster given its 1) Strong presence across industry 2) focus on Digitization and localization 3) Creating smart infrastructure and 4) Increasing customers by leveraging its strong balance sheet and offering innovative financing. We have marginally cut our estimates for SY20E by 3% to factor in higher than anticipated COVID-19 impact. The stock is currently trading at 39x/32.3x SY21E/22E earnings. We maintain BUY with TP of Rs1402 on 40x SY21E.

Factories shutdown & higher cost impacts performance: Sales came in at ~Rs13.2bn (down 58.7% YoY) vs (PLe ~Rs18bn) due to slow-down in short-cycle business related to COVID-19, closure of factories and weak demand in large infrastructure projects. Digital Industries/ Smart Infra/Mobility/Gas & Power/ Portfolio of Companies de-grew by 71%/67%/61%/51%/41% YoY. EBITDA came in at loss of Rs96mn vs PLe ~Rs187mn with EBITDA margins contracting to 0.7% due to higher other expenses and lower revenues impacted by Covid-19. PBT came in at a loss Rs45mn on account of higher depreciation (up 41% YoY). Adj.PAT came in at a loss of Rs46mn (PLe Rs51mn) due to overall poor performance.

Order inflow environment remains challenging: Due to Covid-19 pandemic, OI declined by 37% YoY at Rs19bn led by deferment of orders due to re-negotiation of power T&D contracts on back of recent govt. ban, deferment of private capex such as waste heat recovery boilers and lower government spending, etc. Railway and Metro segments witnessed healthy ordering primarily in signaling and electrification orders. SIEM increased traction from its customer for digitalization solutions which can help them to reduce capex requirements.

Exhibit 1: Q3SY20 Result Overview (Rs mn)- Weak results owing to factories shutdown and higher covid related cost

Y/e Sep	Q3SY19	Q4SY19	Q1SY20	Q2SY20	Q3SY20	YoY gr.	QoQ gr.	9MSY20	9MSY19	YoY gr.
Revenue	31,984	41,288	26,686	28,201	13,195	(58.7)	(53.2)	68,082	95,551	(28.7)
Total Revenues	31,984	41,288	26,686	28,201	13,195	(58.7)	(53.2)	68,082	95,551	(28.7)
Expenditure	28,447	37,232	23,321	25,865	13,291	(53.3)	(48.6)	62,477	84,849	(26.4)
as % of sales	88.9	90.2	87.4	91.7	100.7			91.8	88.8	
Consumption of RM	14,442	19,759	11,682	11,549	5,530	(61.7)	(52.1)	28,761	41,714	(31.1)
as % of sales	45.2	47.9	43.8	41.0	41.9			42.2	43.7	
Employee Cost	3,973	3,440	3,961	4,314	3,676	(7.5)	(14.8)	11,951	12,596	(5.1)
as % of sales	12.4	8.3	14.8	15.3	27.9			17.6	13.2	
Other expenditure	10,032	14,033	7,678	10,002	4,085	(59.3)	(59.2)	21,765	30,539	(28.7)
as % of sales	31.4	34.0	28.8	35.5	31.0			32.0	32.0	
EBITDA	3,537	4,056	3,365	2,336	(96)	(102.7)	(104.1)	5,605	10,702	(47.6)
Depreciation	512	558	611	708	722	41.0	2.0	2,041	1,615	26.4
EBIT	3,025	3,498	2,754	1,628	(818)	(127.0)	(150.2)	3,564	9,087	(60.8)
Other Income	825	1,414	855	806	822	(0.4)	2.0	2,483	2,532	(1.9)
Interest	2	86	77	111	49	2,350.0	(55.9)	237	28	746.4
PBT	3,848	4,826	3,532	2,323	(45)	(101.2)	(101.9)	5,810	11,591	(49.9)
Total Tax	1,367	1,520	905	602	1	(99.9)	(99.8)	1,508	4,027	(62.6)
Reported PAT	2,481	3,306	2,627	1,721	(46)	(101.9)	(102.7)	4,302	7,564	(43.1)
Adjusted PAT	2,481	3,306	2,627	1,721	(46)	(101.9)	(102.7)	4,302	7,564	(43.1)
Adjusted EPS	7.0	9.3	7.4	4.8	-0.1	(101.9)	(102.7)	12.1	21.2	(43.1)
Margins (%)										
EBIDTA	11.1	9.8	12.6	8.3	-0.7	(1,179)	(901)	8.2	11.2	(297)
EBIT	9.5	8.5	10.3	5.8	-6.2	(1,566)	(1,197)	5.2	9.5	(428)
EBT	12.0	11.7	13.2	8.2	-0.3	(1,237)	(858)	8.5	12.1	(360)
PAT	7.8	8.0	9.8	6.1	-0.3	(811)	(645)	6.3	7.9	(160)
Effective Tax rate	35.5	31.5	25.6	25.9	-2.2	(3,775)	(2,814)	26.0	34.7	(879)

Source: Company, PL

Key conference call highlights:

- In 3QSY20 revenues were impacted due to lower offtake of short cycle OEM orders (e.g. - machine business due to slowdown in automotive business), nationwide lockdown affecting operations at factories, logistic and supply side issues. **Some segment such as Water, F&B, pharma, fertilizers have witnessed good traction in terms of execution.**
- Revenue growth in service segment specially from energy and power segment have been better.
- Currently, manufacturing operations at many factories commenced with most supply and logistic issues being resolved. However, in containment zones such as Maharashtra (10 factories located out of total 22 factories), operations are ramping up at a slower pace. Capacity utilization across all factories range between 20-70% levels.
- **In terms of labour availability, there is lot of process as availability increased from 15-20% in May'20 to 60% levels.**
- Bhiwandi has been a big containment zone having a major warehouse of SIEMENS. Being into containment zone, the issues pertaining to labor and logistics continue.
- Due to Covid-19 pandemic, lot of orders have been deferred due to various reason such as re-negotiation of power T&D contracts on back of recent govt. ban, deferment of private capex such as waste heat recovery boilers, lower government spending, etc.
 - Industrial steam units from segment such as metals, chemicals, fertilizers witnessed some kind of ordering.
 - Railway and Metro segments witnessed healthy ordering primarily in signaling and electrification. However, rolling stock orders which are of large ticket size have been deferred.
- **Some of the key orders bagged during 1Q include a) 900circuit breakers for delivery to a utility in South Africa which is a 4-year contract (~Rs1.8bn), b) Supply GIS to Bangladesh (Rs1.5bn), c) electric driven battery for 23 ferries to Cochin metro, d) large automation order of world's largest API facility for Indian pharma company and e) installation of 1st CT scanner in a container.**
- During 3QSY20, the company incurred Rs2.3bn of additional cost related to Covid-19 which has resulted to report a loss.
- Going ahead, company started seeing green shoots as there has been uptick in power consumption, increase in GST collections etc Supply chain issues started recovering as well. June/July has been encouraging. Factories started resuming and in project sites workforce is 60%. Company continues focus on metro and power T&D going ahead.

Financials

Income Statement (Rs m)

Y/e Sep	FY19	FY20E	FY21E	FY22E
Net Revenues	1,37,672	1,11,725	1,30,006	1,52,357
YoY gr. (%)	7.6	(18.8)	16.4	17.2
Cost of Goods Sold	61,474	48,824	56,943	66,733
Gross Profit	76,198	62,901	73,063	85,625
Margin (%)	55.3	56.3	56.2	56.2
Employee Cost	16,111	15,641	18,201	21,330
Other Expenses	6,496	5,810	6,110	7,161
EBITDA	14,903	10,055	13,521	15,845
YoY gr. (%)	12.3	(32.5)	34.5	17.2
Margin (%)	10.8	9.0	10.4	10.4
Depreciation and Amortization	2,182	2,768	2,834	2,985
EBIT	12,721	7,288	10,687	12,860
Margin (%)	9.2	6.5	8.2	8.4
Net Interest	117	335	520	457
Other Income	3,990	3,352	3,653	4,281
Profit Before Tax	16,594	10,304	13,820	16,684
Margin (%)	12.1	9.2	10.6	11.0
Total Tax	5,600	2,597	3,483	4,204
Effective tax rate (%)	33.7	25.2	25.2	25.2
Profit after tax	10,994	7,708	10,338	12,480
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	10,994	7,708	10,338	12,480
YoY gr. (%)	22.0	(29.9)	34.1	20.7
Margin (%)	8.0	6.9	8.0	8.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	10,994	7,708	10,338	12,480
YoY gr. (%)	22.0	(29.9)	34.1	20.7
Margin (%)	8.0	6.9	8.0	8.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,994	7,708	10,338	12,480
Equity Shares O/s (m)	356	356	356	356
EPS (Rs)	30.9	21.7	29.0	35.1

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	10,514	13,347	16,333
Tangibles	7,746	10,514	13,347	16,333
Intangibles	-	-	-	-
Net fixed assets	11,894	11,627	11,293	10,808
Tangibles	11,894	11,627	11,293	10,808
Intangibles	-	-	-	-
Capital Work In Progress	880	880	880	880
Goodwill	-	-	-	-
Non-Current Investments	1,764	2,011	2,340	2,742
Net Deferred tax assets	2,442	2,442	2,442	2,442
Other Non-Current Assets	10,927	10,055	12,351	14,474
Current Assets				
Investments	-	-	-	-
Inventories	11,197	10,713	12,466	14,610
Trade receivables	38,156	38,262	42,742	45,916
Cash & Bank Balance	50,019	53,016	50,192	52,485
Other Current Assets	16,114	18,435	22,101	24,377
Total Assets	1,51,141	1,55,612	1,66,716	1,80,003
Equity				
Equity Share Capital	712	712	712	712
Other Equity	89,782	95,448	1,03,511	1,13,245
Total Network	90,494	96,160	1,04,223	1,13,957
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	33,052	32,140	32,056	33,393
Other current liabilities	30,037	29,754	32,878	35,095
Total Equity & Liabilities	1,51,141	1,55,612	1,66,716	1,80,003

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Sep	FY19	FY20E	FY21E	FY22E
PBT	16,594	10,304	13,820	16,684
Add. Depreciation	2,182	2,768	2,834	2,985
Add. Interest	117	335	520	457
Less Financial Other Income	3,990	3,352	3,653	4,281
Add. Other	(4,764)	-	-	-
Op. profit before WC changes	14,129	13,407	17,174	20,126
Net Changes-WC	4,973	(2,938)	(11,221)	(7,927)
Direct tax	(6,185)	(2,597)	(3,483)	(4,204)
Net cash from Op. activities	12,917	7,873	2,470	7,995
Capital expenditures	(336)	(2,500)	(2,500)	(2,500)
Interest / Dividend Income	3,378	-	-	-
Others	(14,570)	1	-	-
Net Cash from Invst. activities	(11,528)	(2,499)	(2,500)	(2,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(3,004)	(2,042)	(2,274)	(2,746)
Interest paid	(111)	(335)	(520)	(457)
Others	-	-	-	-
Net cash from Fin. activities	(3,115)	(2,377)	(2,794)	(3,203)
Net change in cash	(1,726)	2,997	(2,824)	2,292
Free Cash Flow	11,720	5,373	(30)	5,495

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Sep	Q4SY19	Q1SY20	QSFY20	Q3SY20
Net Revenue	41,288	26,686	28,201	13,195
YoY gr. (%)	4.8	(4.9)	(20.6)	(58.7)
Raw Material Expenses	19,759	11,682	11,549	5,530
Gross Profit	21,529	15,004	16,652	7,665
Margin (%)	52.1	56.2	59.0	58.1
EBITDA	4,056	3,365	2,336	(96)
YoY gr. (%)	(3.1)	9.8	(43.0)	(102.7)
Margin (%)	9.8	12.6	8.3	(0.7)
Depreciation / Depletion	558	611	708	722
EBIT	3,498	2,754	1,628	(818)
Margin (%)	8.5	10.3	5.8	(6.2)
Net Interest	86	77	111	49
Other Income	1,414	855	806	822
Profit before Tax	4,826	3,532	2,323	(45)
Margin (%)	11.7	13.2	8.2	(0.3)
Total Tax	1,520	905	602	1
Effective tax rate (%)	31.5	25.6	25.9	(2.2)
Profit after Tax	3,306	2,627	1,721	(46)
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,306	2,627	1,721	(46)
YoY gr. (%)	18.4	15.2	(38.6)	(101.9)
Margin (%)	8.0	9.8	6.1	(0.3)
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,306	2,627	1,721	(46)
YoY gr. (%)	18.4	15.2	(38.6)	(101.9)
Margin (%)	8.0	9.8	6.1	(0.3)
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,306	2,627	1,721	(46)
Avg. Shares O/s (m)	356	356	356	356
EPS (Rs)	9.3	7.4	4.8	(0.1)

Source: Company Data, PL Research

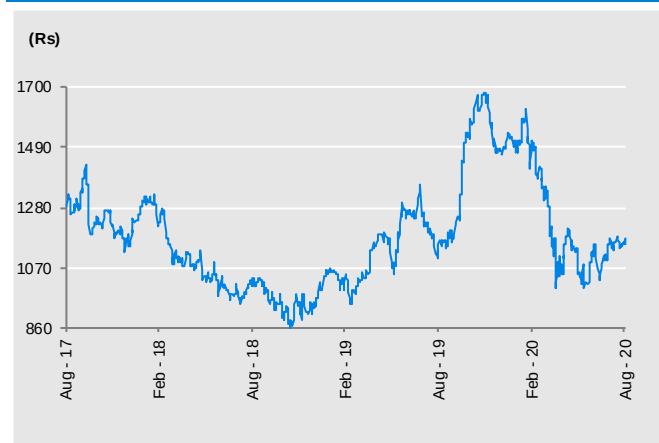
Key Financial Metrics

Y/e Sep	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	30.9	21.7	29.0	35.1
CEPS	37.0	29.4	37.0	43.4
BVPS	254.2	270.1	292.8	320.1
FCF	32.9	15.1	(0.1)	15.4
DPS	-	-	-	-
Return Ratio(%)				
RoCE	14.7	7.8	10.7	11.8
ROIC	23.0	13.5	16.0	17.0
RoE	12.7	8.3	10.3	11.4
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.6)	(0.5)	(0.5)
Net Working Capital (Days)	43	55	65	65
Valuation(x)				
PER	37.5	53.5	39.9	33.1
P/B	4.6	4.3	4.0	3.6
P/CEPS	31.3	39.4	31.3	26.7
EV/EBITDA	24.3	35.7	26.8	22.7
EV/Sales	2.6	3.2	2.8	2.4
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-20	BUY	1,402	1,157
2	14-May-20	BUY	1,402	1,049
3	16-Apr-20	BUY	1,406	1,193
4	12-Feb-20	BUY	1,676	1,496
5	03-Jan-20	BUY	1,687	1,511
6	21-Nov-19	BUY	1,687	1,543
7	03-Oct-19	BUY	1,722	1,526

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	874	913
2	Ahluwalia Contracts (India)	BUY	264	215
3	Ashoka Buildcon	BUY	147	64
4	Bharat Electronics	Hold	99	97
5	BHEL	Hold	34	41
6	Capacite's Infraprojects	BUY	162	111
7	Container Corporation of India	BUY	468	386
8	Cummins India	BUY	472	411
9	Engineers India	BUY	104	73
10	GE T&D India	Hold	71	82
11	H.G. Infra Engineering	BUY	259	200
12	IRB Infrastructure Developers	BUY	139	114
13	ITD Cementation India	BUY	67	52
14	J.Kumar Infraprojects	BUY	176	102
15	Kalpataru Power Transmission	BUY	261	258
16	KEC International	BUY	296	275
17	KNR Constructions	BUY	305	215
18	Larsen & Toubro	BUY	1,192	917
19	NCC	BUY	83	33
20	PNC Infratech	BUY	205	151
21	Power Grid Corporation of India	BUY	205	170
22	Sadbhav Engineering	BUY	87	49
23	Siemens	BUY	1,402	1,157
24	Thermax	Accumulate	798	760
25	Triveni Turbine	BUY	83	64
26	Voltamp Transformers	BUY	1,244	1,132

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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