

12 August 2020

Siemens, India

A Covid'19-scarred quarter; maintaining a Buy

Rating: **Buy**

Target Price: ₹1,352

Share Price: ₹1,172

Weakness at end-customers, further exacerbated by Covid-19, reflected in Siemens Q3 FY20 results. Its consolidated revenue plunged 59% y/y. However, it reported only a marginal EBITDA/net loss (₹65m/19m) due to several cost-restructuring measures during the quarter. With a ~39% y/y drop in order inflows and weak commentary regarding private capex, we cut our FY20e/FY21e earnings by 12%/3% and roll forward our valuation to FY22e with revenue/PAT growing 17%/16%. We are long-term positive about the company 1) as it would be a key beneficiary of the industrial recovery, 2) Increasing adoption of automation/digitisation by customers in the current macro-environment. We retain our Buy rating, with a revised TP of ₹1,352 (earlier ₹1,200) at 40x FY22e.

Lockdown hit Q3 FY20 hard: Weakness in all Siemens' divisions pulled its Q3 FY20 revenue down 59% y/y to ₹13.3bn, lower than expected, attributable to the nationwide lockdown and continued weak demand. At the EBITDA level the company suffered a ₹65m loss (we estimated ₹314m), contained by the cost-restructuring steps. It reported a loss of ₹19m, much less than the expected loss of ₹333m.

Government projects helped order inflow: Order inflows fell 36% y/y to ₹19bn. Management said that orders from government projects continued, though smaller; the private sector, however, was silent. Water, Pharma, F&B and fertilizer did better during Q3 but new investment decisions are taking time to finalise. The company expects the government to fast-track investments across T&D, power, renewables, railways, smart infra, etc. to revive ordering. The Current OB is ₹131bn (~1x FY19 sales).

Valuation. The stock trades at 53x/36x/31x FY20e/21e/22e. From a long-term perspective, we are upbeat due to the structural digitalisation drive, widening product/service range and sturdy balance sheet. We maintain our Buy rating, with a revised TP of ₹1,352. **Risks:** More-than-expected delay in industrial recovery.

Key financials (YE Sep)	FY18	FY19	FY20e	FY21e	FY22e
Sales (₹ m)	1,27,953	1,37,672	1,02,167	1,27,839	1,49,061
Net profit (₹ m)	8,724	11,371	7,083	10,396	12,031
EPS (₹)	24.5	31.9	19.9	29.2	33.8
PE (x)	42.6	32.7	52.5	35.8	30.9
EV / EBITDA (x)	25.2	21.6	36.3	24.4	20.1
PBV (x)	4.5	4.1	3.9	3.6	3.3
RoE (%)	10.9	13.1	7.6	10.4	11.1
RoCE (%)	14.1	14.7	6.9	10.7	12.4
Dividend yield (%)	0.7	0.7	0.4	0.6	0.7
Net debt / equity (x)	-0.4	-0.6	-0.6	-0.4	-0.4

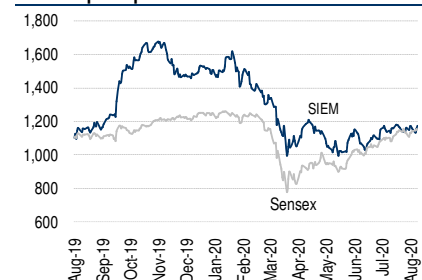
Source: Company, Anand Rathi Research

Key data	SIEM IN / SIEM.BO
52-week high / low	₹1717 / 947
Sensex / Nifty	38370 / 11308
3-m average volume	\$65.6m
Market cap	₹418bn / \$5582.2m
Shares outstanding	356m

Shareholding pattern (%)	Jun'20	Mar'20	Dec'19
Promoters	75.0	75.0	75.0
- of which, Pledged			-
Free float	25.0	25.0	25.0
- Foreign institutions	4.2	4.3	4.3
- Domestic institutions	10.1	10.1	9.9
- Public	10.7	10.6	10.8

Estimates revision (%)	FY20e	FY21e
Sales	-10.0	-3.9
EBITDA	-13.2	-3.5
PAT	-12.4	-2.7

Relative price performance



Source: Bloomberg

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Quick Glance – Consolidated Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Sep	FY18	FY19	FY20e	FY21e	FY22e
Order book	1,23,528	1,18,790	1,23,851	1,19,324	1,15,771
Net revenues	1,27,953	1,37,672	1,02,167	1,27,839	1,49,061
Growth (%)	15.6	7.6	-25.8	25.1	16.6
Material cost	57,072	61,474	44,953	56,377	65,736
Employee, other expenses	57,608	61,295	48,539	57,929	67,127
EBITDA	13,273	14,903	8,674	13,533	16,198
EBITDA margins (%)	10.4	10.8	8.5	10.6	10.9
- Depreciation	1,977	2,182	2,241	2,787	2,746
Other income	2,801	3,990	3,301	3,419	2,909
Interest expenses	82	117	290	305	320
PBT	14,015	16,594	9,444	13,861	16,041
Effective tax rate (%)	37.8	31.5	25.0	25.0	25.0
+ Associates / (Minorities)	-	-	-	-	-
Net income	8,724	11,371	7,083	10,396	12,031
Adjusted income	8,724	11,371	7,083	10,396	12,031
WANS	356.00	356.00	356.00	356.00	356.00
FDEPS (₹ / sh)	24.5	31.9	19.9	29.2	33.8
EPS growth (%)	18.0	30.3	-37.7	46.8	15.7

Fig 3 – Cash-flow statement (₹ m)

Year-end: Sep	FY18	FY19	FY20e	FY21e	FY22e
PBT	14,015	16,594	9,444	13,861	16,041
+ Non-cash items	2,059	2,299	2,531	3,091	3,066
Oper. prof. before WC	16,074	18,893	11,975	16,952	19,107
- Incr. / (decr.) in WC	7,885	-4,973	954	2,709	3,391
Others incl. taxes	7,191	10,949	5,762	6,884	6,920
Operating cash-flow	998	12,917	5,258	7,359	8,797
- Capex (tang. + intang.)	-1,906	-1,197	-2,798	-21,298	-2,298
Free cash-flow	-908	11,720	2,460	-13,939	6,499
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	-3,000	-3,005	-1,605	-2,356	-2,727
+ Equity raised	-	-	-	-	-
+ Debt raised	-	-	-	-	-
- Fin investments	-	-	-	-	-
- Misc. (CFI + CFF)	5,893	16,452	-2,896	3,837	4,715
Net cash-flow	-3,801	-1,727	6,962	-15,420	4,511

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (₹ m)

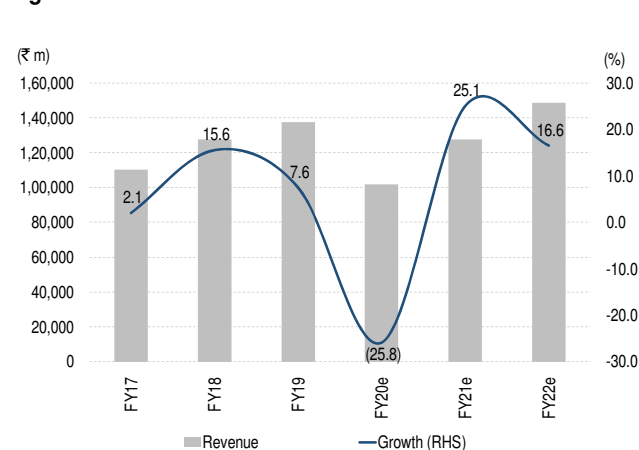
Year-end: Sep	FY18	FY19	FY20e	FY21e	FY22e
Share capital	712	712	712	712	712
Net worth	82,989	90,494	95,971	1,04,011	1,13,315
Debt	-	-	-	-	-
Minority interest	-	-	-	-	-
DTL / (Assets)	-2,697	-2,442	-2,542	-2,542	-2,542
Capital employed	80,292	88,052	93,429	1,01,469	1,10,773
Net tangible assets	12,454	11,894	12,451	30,962	30,514
Net intangible assets	34	15	15	15	15
Goodwill	282	282	282	282	282
CWIP (tang. & intang.)	625	583	583	583	583
Investments (strategic)	1,042	1	1	1	1
Investments (financial)	-	-	-	-	-
Current assets (ex cash)	89,313	88,347	69,929	85,750	99,984
Cash	36,916	50,019	56,981	41,561	46,072
Current liabilities	60,374	63,089	46,813	57,686	66,679
Working capital	28,939	25,258	23,116	28,064	33,305
Capital deployed	80,292	88,052	93,429	1,01,469	1,10,773

Fig 4 – Ratio analysis

Year-end: Sep	FY18	FY19	FY20e	FY21e	FY22e
P/E (x)	42.6	32.7	52.5	35.8	30.9
EV / EBITDA (x)	25.2	21.6	36.3	24.4	20.1
EV / Sales (x)	2.6	2.3	3.1	2.6	2.2
P/B (x)	4.5	4.1	3.9	3.6	3.3
RoE (%)	10.9	13.1	7.6	10.4	11.1
RoCE (%) - after tax	14.1	14.7	6.9	10.7	12.4
RoIC (%) - after tax	16.3	23.7	13.3	13.8	16.1
DPS (₹ / sh)	7.0	7.0	4.5	6.6	7.7
Dividend yield (%)	0.7	0.7	0.4	0.6	0.7
Dividend payout (%) - incl. DDT	28.6	21.9	22.7	22.7	22.7
Net debt / equity (x)	-0.4	-0.6	-0.6	-0.4	-0.4
Receivables (days)	107	103	105	105	105
Inventory (days)	33	30	40	35	35
Payables (days)	87	88	85	85	85
CFO : PAT %	11.4	113.6	74.2	70.8	73.1

Source: Company, Anand Rathi Research

Fig 6 – Revenue trend



Source: Company

Result Highlights

Fig 7 – Q3 FY20 performance belied our expectations

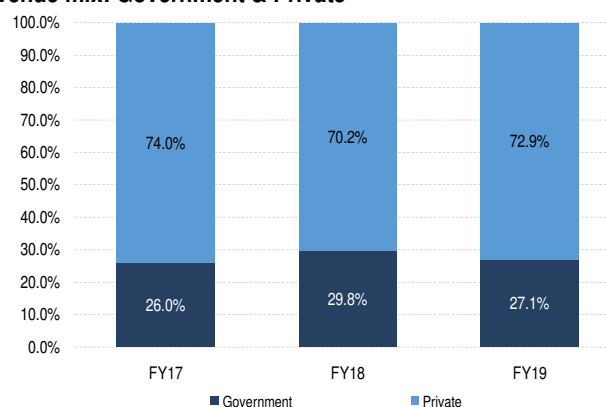
(₹ m)	Q3 FY20	Q3 FY19	Y/Y (%)	Q2 FY20	Q/Q (%)	9M FY19	9M FY20	Y/Y (%)
Net revenue	13,346	32,161	(58.5)	28,379	(53.0)	96,010	68,575	(28.6)
EBITDA	(65)	3,556	-	2,375	-	10,770	5,707	(47.0)
EBITDA margins (%)	-0.5	11.1		8.4		11.2	8.3	
Other income	833	839	(0.7)	820	1.6	2,555	2,522	(1.3)
Depreciation	726	515	41.0	713	1.8	1,621	2,054	26.7
Interest	50	2		112	(55.4)	28	239	753.6
Exceptional items	-	-		-				
Profit before tax	(8)	3,878	-	2,370	-	11,676	5,936	(49.2)
Tax	11	1,377	(99.2)	613		4,053	1,540	
Reported PAT	(19)	2,501	-	1,757	-	7,623	4,396	(42.3)
Net margins (%)	(0.1)	7.8		6.2		7.9	6.4	
Adj. EPS (₹)	(0.1)	7.0		4.9		21.4	12.3	(42.3)

Source: Company

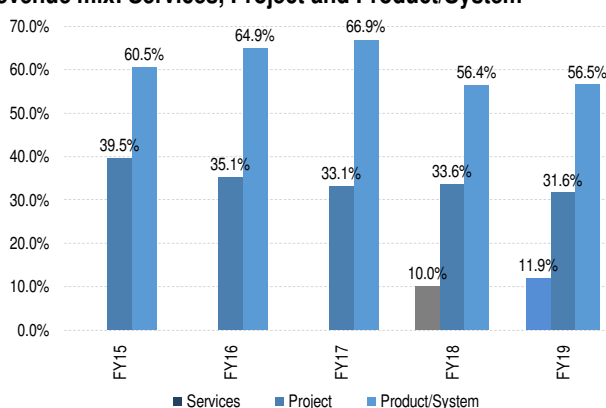
Fig 8 – Weakness was seen across divisions

Year-end: Sep	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Y/Y
Revenue, by segment (₹m)								
Gas and Power	10,480	12,967	11,590	16,321	8,886	10,267	5,546	(52.1)
Smart Infrastructure	7,723	9,796	9,061	10,996	7,590	7,745	3,092	(65.9)
Mobility	1,745	3,662	2,667	3,588	2,249	2,566	1,121	(58.0)
Digital Industries	6,398	7,009	6,278	7,189	6,001	5,267	1,819	(71.0)
Portfolio of companies	2,053	2,787	2,832	3,945	2,484	2,910	1,754	(38.1)
Others	220	331	329	312	157	243	270	(17.9)
Total	28,619	36,552	32,757	42,351	27,367	28,998	13,602	(58.5)
Less: Inter segment revenue	0	774	596	1,063	517	609	256	
Net revenue	28,071	35,778	32,161	41,288	26,850	28,389	13,346	(58.5)
EBIT								
Gas and Power	2,010	1,603	1,549	1,765	974	887	232	(85.0)
Smart Infrastructure	772	1,012	740	1,028	744	26	-731	-
Mobility	-148	656	313	377	264	305	60	(80.8)
Digital Industries	161	505	421	561	630	263	-236	-
Portfolio of companies	-255	-215	-202	-245	132	174	-151	-
Others	-7	14	220	13	38	7	35	(84.1)
Total	2,533	3,575	3,041	3,499	2,782	1,662	-791	-
EBIT margins (%)								
Gas and Power	19.2	12.4	13.4	10.8	11.0	8.6	4.2	-918
Smart Infrastructure	10.0	10.3	8.2	9.3	9.8	0.3	-23.6	-
Mobility	-8.5	17.9	11.7	10.5	11.7	11.9	5.4	-638
Digital Industries	2.5	7.2	6.7	7.8	10.5	5.0	-13.0	-
Portfolio of companies	-12.4	-7.7	-7.1	-6.2	5.3	6.0	-8.6	-
Others	-3.2	4.2	66.9	4.2	24.2	2.9	13.0	-5,391
Total	8.9	9.8	9.3	8.3	10.2	5.7	-5.8	-

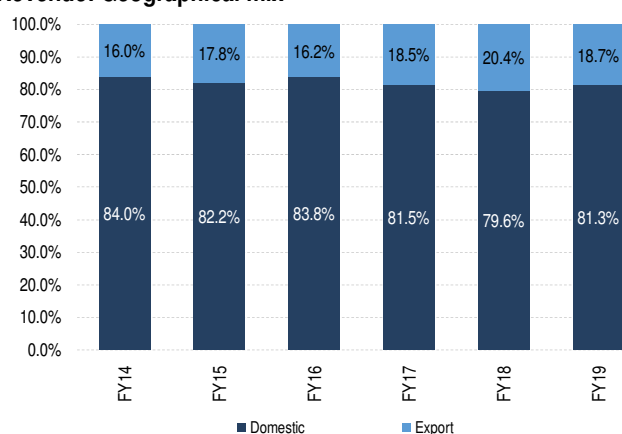
Source: Company

Fig 9 – Revenue mix: Government & Private

Source: Company, Anand Rathi Research

Fig 10 – Revenue mix: Services, Project and Product/System

Source: Company, Anand Rathi Research

Fig 11 – Revenue: Geographical mix

Source: Company, Anand Rathi Research

Concall Highlights

Business update

Q1 revenue was impacted by ₹2.3bn due to the Covid'19-related lockdown, labour shortage, supply-chain disruptions and greater cost of installations. The Smart infrastructure segment was impacted in both revenue and profitability. Digital industries were affected by lower discrete automation demand from automotive and machine-building industries. Digital industries revenue was down due to warehouse closures and imports were impacted. On the flip side, a good performance was seen in the energy category. The order book is healthy with management's focus on bidding for orders with appropriate margins. Management expects Q4 to be better than Q3, with higher utilisation at factories, the supply chain back on track and labour availability.

Covid update

During the lockdown, major warehouses in Bhiwandi (Maharashtra) were in containment zones, thereby facing logistic and labour issues. The re-imposition of the lockdown in some parts of the country impacted the company's supply chain. Currently, all its factories and warehouses have opened and are running at 20-70% utilisation. 75% of the project sites are operational. Labor is gradually returning, with availability currently at ~60%.

Cost reduction

Expenditure on return of labour was costly. Also, health and safety measures at factories, project sites and warehouses added to costs. However, cost savings were possible due to work-from-home, leading to lower rentals of offices and reduced electricity, repairs and maintenance costs. Besides, the company is saving on discretionary spending such as travel and seminars. It is focusing on improving its working capital through cash collections of all its divisions. Adequate liquidity and a healthy balance sheet would help it tide over this difficult time.

Government orders update

Government spending was much slower, with floating of a few smaller-value orders, due to the pandemic and lack of digital infrastructure to finalise orders. Tenders in metals, chemicals and fertilisers were floated by the government during the lockdown, while tenders in waste-heat recovery and cement were delayed. A few orders were floated in transmission, while in generation there was no movement. In mobility, signaling and electrification orders were rolled out for the Railway and metro-rail, while rolling stock, which constitutes a huge portion of the mobility segment slowed down.

Private orders update

Private sector ordering paused, with many considered for re-ordering or deferred. Sectors such as water, food & beverages, pharmaceuticals and fertilizers did better. Short-cycle products were primarily impacted by poor offtake from OEM machine-builders and the slowdown in the automotive industry. Siemens is focused on providing cost-saving measures in terms of digitization and automation, which appears to be a healthy opportunity.

Abundant opportunities

The Atmanirbhar Bharat move by the government turns out to be an opportunity for Siemens in terms of its strong operations in power equipment, automation and digitisation. In automation, it operates in 23 categories. Opportunities abound in EV infrastructure space in areas of battery storage, power transmission and distribution. While in mobility, privatisation of railways adds to prospects in the home market, thereby boosting tendering in signaling, rolling stock, electrification and locomotives. A pickup was seen in the automotive segment, both commercial and passenger vehicles. In smart infrastructure, opportunities were seen in electric infrastructure, battery storage, smart building and fire safety digital offerings. Exports were subdued with Europe being hit by a recession, and the US by a substantial slowdown.

On imports and localisation

- Siemens is a net importer of components, largely to benefit from the lower cost of producing components in factories across the globe.
- Imports from China are negligible compared to its exports. Third-party imports from China can be replaced.
- Many competitors would earlier compete with Siemens by importing from China. Now with import bans, Siemens would be able to compete with them, as management believes it is competitive in terms of local sourcing.

Other key highlights

- Earlier, Siemens AG had a 75% stake in Siemens India. This has now changed to Siemens AG holding a 51% stake and Siemens Energy, 24%. Siemens Energy also has its representative on the Siemens India board.
- Siemens India has full access to Siemens Energy in terms of technology, expertise and network, with a transfer-pricing policy in place.
- The Siemens AG-Alstom merger was stalled by the regulator. Alstom would be acquiring Bombardier. Siemens AG is re-aligning its strategy and provide updates in subsequent quarters.
- C&S acquisition would help Siemens to provide services in the utilities space, as it is active on the industrial side. C&S which is more focused on domestic market, now with Siemens has strong operations in the international market, it would benefit from geographical diversification.

Valuation

While we believe that industrial recovery may be more protracted than anticipated, with its resilient business model and backed by structural soundness, Siemens would revive faster than its peers. We expect it to benefit from continuous government spending and the expected recovery in private sector capex. Its sharper focus on industrial automation/digitisation, remote monitoring, cost-optimisation and greater profitability auger well for Siemens.

The stock trades at 53x/36x/31x FY20e/21e/22e respectively. From a long-term perspective, we are upbeat about the company due to its structural digitization drive, widening product/service portfolio and sturdy balance sheet. We maintain a Buy, with a higher target price of ₹1,352.
Risk: More-than-expected delay in industrial recovery.

Fig 12 – Change in estimates

(₹ m)	Old estimates		Revised Estimates		Change %	
	FY20e	FY21e	FY20e	FY21e	FY20e	FY21e
Revenue	1,13,460	1,33,076	1,02,167	1,27,839	-10.0	-3.9
EBITDA	9,991	14,025	8,674	13,533	-13.2	-3.5
EPS (₹)	23	30	20	29	-12.4	-2.7

Source: Anand Rathi Research

Fig 13 – One-year-forward PER



Source: Company, Anand Rathi Research

Key risks

- More-than-estimated delay in capex recovery.
- More-than-necessary EPS dilution.

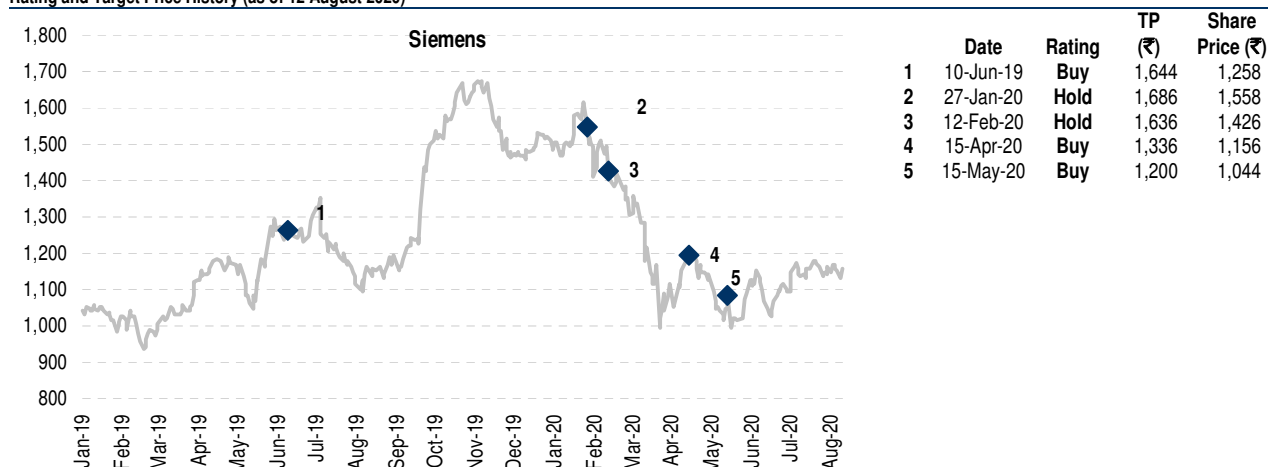
Appendix

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Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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