

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	2,276
12 month price target (INR)	2,660
Market cap (INR bn/USD bn)	811/10.9
Free float/Foreign ownership (%)	25.0/4.1
What's Changed	
Target Price	↑
Rating/Risk Rating	—

QUICK TAKE

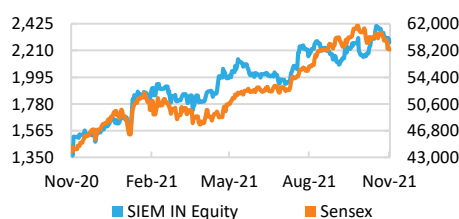
	Above	In line	Below
Profit			●
Margins	●		
Revenue Growth		●	
Overall		●	

FINANCIALS

(INR mn)

Year to September	FY21A	FY22E	FY23E	FY24E
Revenue	1,29,631	1,69,937	1,90,862	2,20,521
EBITDA	14,594	20,057	22,714	26,243
Adjusted profit	10,627	16,128	18,104	20,964
Diluted EPS (INR)	29.8	45.3	50.8	58.9
EPS growth (%)	40.3	51.8	12.3	15.8
RoAE (%)	10.7	14.7	14.7	15.1
P/E (x)	76.3	50.3	44.8	38.7
EV/EBITDA (x)	52.2	37.5	32.6	27.8
Dividend yield (%)	0.4	0.4	0.4	0.4

PRICE PERFORMANCE



Explore:



Financial model



Podcast



Corporate access



Video

Cyclically and structurally attractive

Siemens (SIEM) posted a stable set of P&L with execution and order intake for Q4 largely at pre-covid levels. Revenues are in line, but EBITDA missed consensus with adverse input cost/overhead impact.

For FY21, SIEM posted a strong comeback with revenue/EBITDA largely at FY19 levels; however, order intake grew at high single digit. SIEM translated a far superior OCF to PAT at 125% (versus 90% in FY20) for the year. Management commentary on private capex and infra remains optimistic for coming quarters. With wider private sector participation and improving new order outlook, SIEM's earning trajectory should get better in line with peers such as ABB. Retain 'BUY'.

Exits FY21 on a stable P&L and better orders; growth visibility higher

While Q4 for SIEM is largely in line on order intake and execution, it had some impact of increased cost from higher RM and overheads. For FY21, however, revenues across segments barring mobility scaled up materially (YoY), with short-cycle (digital industries) doing better versus FY19 levels on revenue/EBIT levels. Strong intake in Q3 had led to a healthy pick up in new orders for the year, reflecting a pickup in both infra/private sector orders—also visible at L&T, Thermax, ABB, etc. Despite significant cost pressure, SIEM managed to revive margins across Energy, Digital & smart infra (versus FY20), while digital margins scaled up to newer highs.

Way forward for SIEM over 12–24 months; key aspects for investors

SIEM's leadership team has mastered the art of managing OPM volatility while keeping balance sheet quality at fore, both of which reflect in its annual results. New order inflow commentary is in sync with peers like ABB, Thermax on private sector and L&T etc on the infra outlook. As SIEM enjoys a better capex cycle going ahead, what remains key is how it plays and manages the competitive dynamics across conventional and new segments. Also, scale up in C&S where it invested a major portion of its cash beyond domestic market remains key. We expect the overall pace of new orders and revenues to stay healthy going ahead with better EBITDA growth.

Outlook and valuation: Healthy growth visibility; retain 'BUY'

SIEM's addressable market opportunity has been expanding led by improving private capex spending and larger manufacturing footprint. Unlike peers, SIEM is a play on both public infra, private capex revival with additional upside from new segments. Retain 'BUY/SO' with a TP of INR2,660 (earlier INR2,360) on a rollover to Mar-23E.

Financials

Year to March	Q4FY21	Q4FY20	% Change	Q3FY21	% Change
Net Revenue	39,997	35,190	13.7	27,080	47.7
EBITDA	4,287	4,529	(5.3)	2,283	87.8
Adjusted Profit	3,230	3,331	(3.0)	1,615	100.0
Diluted EPS (INR)	9.1	9.4	(3.0)	4.5	100.0

Financial Statements

Income Statement (INR mn)

Year to September	FY21A	FY22E	FY23E	FY24E
Total operating income	1,29,631	1,69,937	1,90,862	2,20,521
Gross profit	40,875	56,639	63,613	72,419
Employee costs	16,041	19,288	21,477	24,598
Other expenses	10,240	17,293	19,422	21,577
EBITDA	14,594	20,057	22,714	26,243
Depreciation	2,282	2,777	2,954	3,190
Less: Interest expense	196	212	229	247
Add: Other income	2,190	4,483	4,662	5,208
Profit before tax	14,306	21,552	24,194	28,015
Prov for tax	3,679	5,425	6,090	7,051
Less: Other adj	0	0	0	0
Reported profit	10,627	16,128	18,104	20,964
Less: Excp.item (net)	0	0	0	0
Adjusted profit	10,627	16,128	18,104	20,964
Diluted shares o/s	356	356	356	356
Adjusted diluted EPS	29.8	45.3	50.8	58.9
DPS (INR)	8.0	10.0	10.0	10.0
Tax rate (%)	25.7	25.2	25.2	25.2

Important Ratios (%)

Year to September	FY21A	FY22E	FY23E	FY24E
COGS (% of rev)	68.5	66.7	66.7	67.2
Employee cost (% of rev)	12.4	11.4	11.3	11.2
Other exp (% of rev)	7.9	10.2	10.2	9.8
EBITDA margin (%)	11.3	11.8	11.9	11.9
Net profit margin (%)	8.2	9.5	9.5	9.5
Revenue growth (% YoY)	33.1	30.4	12.3	15.5
EBITDA growth (% YoY)	47.4	37.4	13.2	15.5
Adj. profit growth (%)	40.3	51.8	12.3	15.8

Assumptions (%)

Year to September	FY21A	FY22E	FY23E	FY24E
GDP (YoY %)	(7.3)	9.0	7.0	7.0
Repo rate (%)	4.0	4.0	4.3	5.3
USD/INR (average)	74.2	73.0	72.0	71.0
Order inflow (INR bn)	142.3	165.1	189.8	208.8
Rev growth (%)	31.3	31.1	12.3	15.5
Gross margin (%)	31.5	33.3	33.3	32.8
EBITDA margin (%)	11.3	11.8	11.9	11.9
Tax rate (%)	25.7	25.2	25.2	25.2
Capex (INR mn)	1,937.0	1,500.0	1,500.0	2,000.0

Valuation Metrics

Year to September	FY21A	FY22E	FY23E	FY24E
Diluted P/E (x)	76.3	50.3	44.8	38.7
Price/BV (x)	7.8	7.0	6.2	5.5
EV/EBITDA (x)	52.2	37.5	32.6	27.8
Dividend yield (%)	0.4	0.4	0.4	0.4

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to September	FY21A	FY22E	FY23E	FY24E
Share capital	712	712	712	712
Reserves	1,02,725	1,15,292	1,29,835	1,47,238
Shareholders funds	1,03,437	1,16,004	1,30,547	1,47,950
Minority interest	0	0	0	0
Borrowings	0	0	0	0
Trade payables	57,790	69,473	78,560	85,802
Other liabs & prov	7,327	7,796	8,289	8,806
Total liabilities	1,71,763	1,96,482	2,20,605	2,45,768
Net block	9,446	8,169	6,716	5,526
Intangible assets	0	0	0	0
Capital WIP	304	304	304	304
Total fixed assets	9,750	8,473	7,020	5,830
Non current inv	22,120	22,120	22,120	22,120
Cash/cash equivalent	48,488	59,396	71,126	82,046
Sundry debtors	35,260	45,556	53,724	62,072
Loans & advances	40,298	42,313	45,698	49,354
Other assets	15,847	18,624	20,918	24,345
Total assets	1,71,763	1,96,482	2,20,605	2,45,768

Free Cash Flow (INR mn)

Year to September	FY21A	FY22E	FY23E	FY24E
Reported profit	10,627	16,128	18,104	20,964
Add: Depreciation	2,282	2,777	2,954	3,190
Interest (net of tax)	146	158	171	185
Others	(1,536)	(4,430)	(4,605)	(5,146)
Less: Changes in WC	1,819	(2,936)	(4,267)	(7,672)
Operating cash flow	13,338	11,697	12,358	11,520
Less: Capex	(994)	(1,500)	(1,500)	(2,000)
Free cash flow	12,344	10,197	10,858	9,520

Key Ratios

Year to September	FY21A	FY22E	FY23E	FY24E
RoE (%)	10.7	14.7	14.7	15.1
RoCE (%)	14.6	19.8	19.8	20.3
Inventory days	55	56	57	56
Receivable days	95	87	95	96
Payable days	222	205	212	203
Working cap (% sales)	19.0	16.3	16.8	18.1
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(0.5)	(0.5)	(0.5)	(0.6)
Interest coverage (x)	62.8	81.6	86.4	93.4

Valuation Drivers

Year to September	FY21A	FY22E	FY23E	FY24E
EPS growth (%)	40.3	51.8	12.3	15.8
RoE (%)	10.7	14.7	14.7	15.1
EBITDA growth (%)	47.4	37.4	13.2	15.5
Payout ratio (%)	26.8	22.1	19.7	17.0

Exhibit 1: Quarterly financial snapshot

Year to September	Q4FY21	Q4FY20	% YoY	Q4FY19	Q3FY21	% QoQ	FY21	FY22E	FY23E
Total revenues (net)	39,997	35,190	13.7	38,758	27,080	47.7	1,29,631	1,69,937	1,90,862
Direct cost	27,768	23,869	16.3	27,106	18,178	52.8	88,756	1,13,298	1,27,249
Staff cost	4,353	3,908	11.4	3,317	4,039	7.8	16,041	19,288	21,477
Other operating expenses	3,589	2,884	24.4	4,052	2,580	39.1	10,240	17,293	19,422
Total expenditure	35,710	30,661	16.5	34,475	24,797	44.0	1,15,037	1,49,879	1,68,148
EBITDA	4,287	4,529	(5.3)	4,283	2,283	87.8	14,594	20,057	22,714
Depreciation	540	630	(14.3)	507	545	(0.9)	2,282	2,777	2,954
EBIT	3,747	3,899	(3.9)	3,776	1,738	115.6	12,312	17,281	19,760
Interest	59	58	1.7	86	56	5.4	196	212	229
Other income	616	614	0.3	1,414	463	33.0	2,190	4,483	4,662
Exceptional items	0	0		0	0		0	0	0
PBT	4,304	4,455	(3.4)	5,104	2,145	100.7	14,306	21,552	24,194
Tax	1,074	1,124	(4.4)	1,608	530	102.6	3,679	5,425	6,090
Reported Profit	3,230	3,331	(3.0)	3,496	1,615	100.0	10,627	16,128	18,104
Adjusted Profit	3,230	3,331	(3.0)	3,496	1,615	100.0	10,627	16,128	18,104
Equity capital(FV:INR2)	712	712		712	712		712	712	712
No. of Diluted shares outstanding (mn)	356	356		356	356		356	356	356
Adjusted Dil. EPS	9.1	9.4		9.8	4.5		29.8	45.3	50.8
as % of net revenues									
Direct cost	69.4	67.8		69.9	67.1		68.5	66.7	66.7
Staff cost	10.9	11.1		8.6	14.9		12.4	11.4	11.3
Other operating expenses	12.9	12.1		14.9	14.2		7.9	10.2	10.2
EBITDA	10.7	12.9		11.1	8.4		11.3	11.8	11.9
Adjusted profit	8.1	9.5		9.0	6.0		8.2	9.5	9.5
Tax rate	25.0	25.2		31.5	24.7		25.7	25.2	25.2

Source: Company, Edelweiss Research

Company Description

Siemens India (SIEM) is a 75% subsidiary of Siemens AG, Germany, which has presence in more than 200 countries. SIEM offers diverse products and services solutions in power generation, transmission and distribution, automation and drives, industrial and digital solution. Siemens has 22 factories located across the country, eight Centres of Competence, 11 R&D centres and a nationwide sales and service network.

Investment Theme

Siemens (SIEM) is one of the most diversified industrial product/solutions companies in India with exposure to a wide range of industries including power, steel, cement, hydrocarbons, factories & building technologies, automation/digitalization, etc. Over the past three-four years, the company has simplified its business structure, apart from reducing operating margin volatility, which we believe is a significant departure from the past. Additionally, we expect it to significantly scale up in new areas like digital and factories & building technologies, which will boost growth and operating margin given the high growth potential and scope for value addition. The stock's re-rating will be a function of structural shift in revenue stream to more short-cycle/high-returns yielding business including global leverage on recently acquired C&S business. Also, Siemens is better placed to benefit from robust railway/metro capex esp on large system order potential.

Key Risks

Slowdown in key infra verticals including T&D, transportation, hydrocarbon etc., could impact SIEM's overall business growth.

SIEM has reasonable exposure to export markets and hence a sustained slow down in key export markets, including the Middle East, could impact our growth estimates.

Parent's strategy has a direct bearing on SIEM's domestic business positioning. Hence, any significant decision w.r.t. business verticals could impact future growth potential and valuations.

Additional Data

Management

Chairman	Deepak Parekh
MD & CEO	Sunil Mathur
ED & CFO	Daniel Spindler
Company Secretary	Ketan Thaker
Auditor	B S R & Co. LLP

Holdings – Top 10*

	% Holding		% Holding
Life Insurance	7.36	HDFC Asset Mana	0.20
Vanguard Group	0.78	INVESTOR EDUCAT	0.20
BlackRock Inc	0.61	Norges Bank	0.19
DSP Investment	0.48	Tata Asset Mana	0.19
Nippon Life Ind	0.40	UTI Asset Manag	0.16

*Latest public data

Recent Company Research

Date	Title	Price	Reco
11-Aug-21	Slight blip; talking growth; <i>Result Update</i>	2059.7	Buy
24-Jun-21	Accelerated approach to growth; <i>Company Update</i>	2025.45	Buy
01-Jun-21	Realistic and clear goal amid uncertain; <i>Company Update</i>	2086.3	Buy

Recent Sector Research

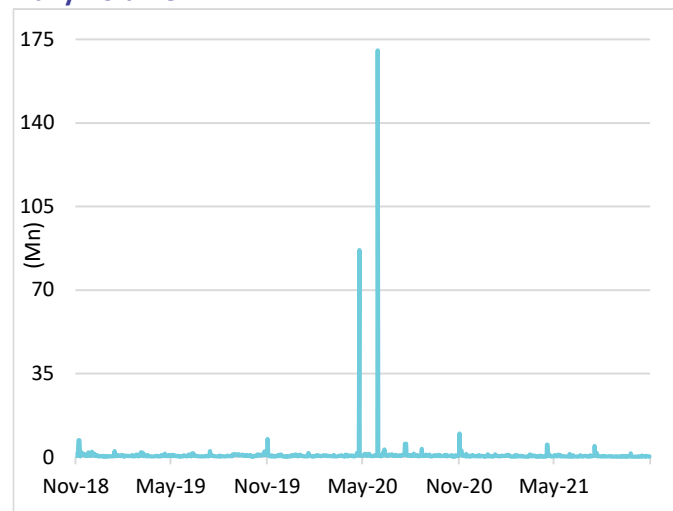
Date	Name of Co./Sector	Title
15-Nov-21	Honeywell Automation	Slower catch-up; better clarity awaited; <i>Result Update</i>
13-Nov-21	Bharat Forge	Strong cyclical recovery; <i>Result Update</i>
12-Nov-21	Thermax	Stable profit & loss; orders spring surp; <i>Result Update</i>

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	186	51	18	256
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	231	40	3	274

*1 stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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