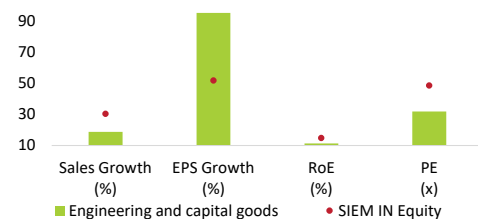


COMPANY UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	2,198
12 month price target (INR)	2,660
Market cap (INR bn/USD bn)	783/10.4
Free float/Foreign ownership (%)	36.1/10.9
What's Changed	
Target Price	—
Rating/Risk Rating	—

INVESTMENT METRICS

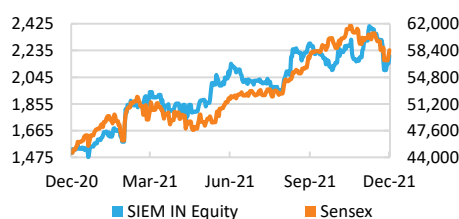


FINANCIALS

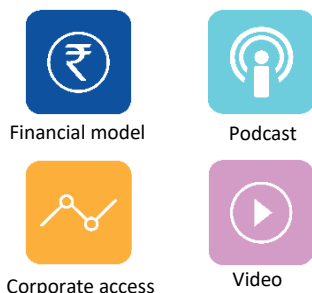
(INR mn)

Year to September	FY20A	FY21E	FY22E	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)	73.7	48.5	43.2	37.3
EV/EBITDA (x)	50.3	36.1	31.3	26.7
Dividend yield (%)	0.4	0.5	0.5	0.5

PRICE PERFORMANCE



Explore:



Array of structural and favourable trends

We recently attended the FY21 analyst meet of Siemens India (SIEM). Highlights: i) Ordering cycle has improved consistently over the past few quarters led by efficiency-related private capex driven by short-mid cycle product orders from cement-metals, food-beverages and renewables, etc. ii) Utilisation at ~70% suggests large-scale greenfield capex is still some time away; however, medium voltage led by EV charging infra, renewable integration, data centres, etc will be a major driver for electrification.

We remain bullish on SIEM enthused by perking up private capex across wider sectors and a few encouraging emerging trends driving automation, digital and medium voltage structurally. Retain 'BUY'.

Colour of capex and key sector trends

SIEM's leadership team highlighted improved momentum in sectors such as metals/cement is largely efficiency-led, driving demand for short-mid cycle products/solutions. Railway-metro and food & beverage are sustaining well in new orders. Large order for smart meter, STATCOMs, renewable integration and signalling order aided FY21 intake. There was no mention of greenfield projects, which remain critical to a large scale capex uptick. ([click to read Q&A excerpts](#))

Way forward for SIEM India; cyclical and structural drivers

Current utilisation for private sector stands at ~70%, suggesting full-fledged capex will take some time. PLI is a major driver of current capex across few sectors. Management indicated strong potential from medium voltage segment, which will see significant growth across data centres, renewables integration, EV charging (Grid to Socket), and SIEM is already witnessing improving traction in these segments. Management believes OPMs for SIEM will reflect increased share of digital and software revenues, which coupled with a rising share of products (including new offerings), should lead to better OPMs. Manufacturing footprint and localisation have been a consistent focus as per management, who would look to leverage global software capabilities to service expanding client needs for domestic markets.

Outlook and valuation: Structurally on strong upcycle; retain 'BUY'

Under current leadership, SIEM has seen multiple changes—reduced OPM volatility and business structure/portfolio consolidation, which boost investor perception and growth outlook. We expect the growth/return cycle for SIEM in the medium-long run to fare better as the industrial cycle gets better and as emerging segments see greater volumes. SIEM's TAM expansion is clearly on an uptrend and as new-age businesses gain scale, SIEM, in our view, has solid a competitive moat (technology and diverse scale) to benefit from. Retain 'BUY/SO' with a TP of INR2,660.

Financial Statements

Income Statement (INR mn)

Year to September	FY20A	FY21E	FY22E	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	FY20A	FY21E	FY22E	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	FY20A	FY21E	FY22E	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	FY20A	FY21E	FY22E	FY24E
Diluted P/E (x)	73.7	48.5	43.2	37.3
Price/BV (x)	7.6	6.7	6.0	5.3
EV/EBITDA (x)	50.3	36.1	31.3	26.7
Dividend yield (%)	0.4	0.5	0.5	0.5

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to September	FY20A	FY21E	FY22E	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	FY20A	FY21E	FY22E	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	FY20A	FY21E	FY22E	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	FY20A	FY21E	FY22E	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

Conference call highlights

Opening remarks

- Central government capex is going strong, while state capex has not yet taken off and is unlikely to revive at this stage. Private sector has started spending to a certain extent, especially pharma, food and beverage, etc.
- Digitalisation has clearly fast tracked in past 2 years, semi-conductor or supply chain constraints are not a major worry, but input cost/logistics cost has been a challenge.
- Cement-Steel, railway-metro, pharma, F&B stayed strong while building management has been slow relatively. Note that Siemens also bagged a large E&A order from a cement major.
- Energy demand is up 19% YoY (private led industrial capex, captive plants, WHR for better energy efficiency and de-carbonisation drive).
- STATCOM orders are looking up as customers upgrade their systems. 8GW of renewable power integration in Rajasthan.
- SMART Infra business, electrification is looking better, data centre and energy efficiency is growing well.
- Mobility- Electrification and signalling orders going well. SIEM has bagged a large order in DFCC/metro segment.

Question and answers

Q: Digital strategy of the parent and how is Siemens India looking at that?

A: India is not at a stage where digital could have a significant size and will take a couple of years before we report any material scale.

Q: Smart Infra potential in the medium voltage segment?

A: Building management system, hotel, hospitals etc are key markets. In the energy space, medium voltage business will grow led by charging stations (grid to socket infra), renewables capacity integration, data centre etc. SIEM is in active discussion with local/global aggregators for data centres. Warehousing and logistics will need huge automation/integration.

Q: Royalty payments to parent and the path forward for capital allocation?

A: FY21 royalty fee payment has seen some increase but is still at around 0.5-0.6% and is unlikely to move higher materially. On capital allocation, SIEM has been investing INR2bn on capex to meet current growth needs. SIEM will evaluate new-age investments from short-medium-long term view. On inorganic path, SIEM will evaluate it segment-wise.

Q: Charging opportunities, metro and high speed rail?

A: In Metro we are looking at signalling and electrification segment largely. On E mobility, SIEM is looking at GRID to SOCKET going ahead.

Q: C&S Electric profitability?

A: C&S Electric profitability is robust, there are some integration costs that will continue for about a year. The entity will target more and more exports business which augurs well for OPMs.

Q: Margin levers for SIEM India?

A: Rising share of products and high margin software business should directionally help SIEM see healthy OPMs in the medium to long run. Pandemic led supply chain disruption has led to a shift in cost structures for SIEM and industry as well.

Q: Top 2 business lines within the gamut of decarbonisation and potential scale-up from that?

A: SIEM is looking at WHR in energy, E Charging and Smart Grid, datacentre, etc which will grow as investments come in the decarbonisation area.

Q: SaaS offering at 5–10% of revenues?

A: Digital offering is an intersection of IT/OT, SIEM will look to partner with other players to cater to customers growing needs.

Q: Localisation strategy as SIEM caters to new-age segments?

A: SIEM has 31 factories in India at this stage and with 6,000 plus software engineers catering to global demand for the group. Localisation in new areas will depend on competition scale/location, customer location and needs, there is no specific strategy at this stage.

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 slowdown 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

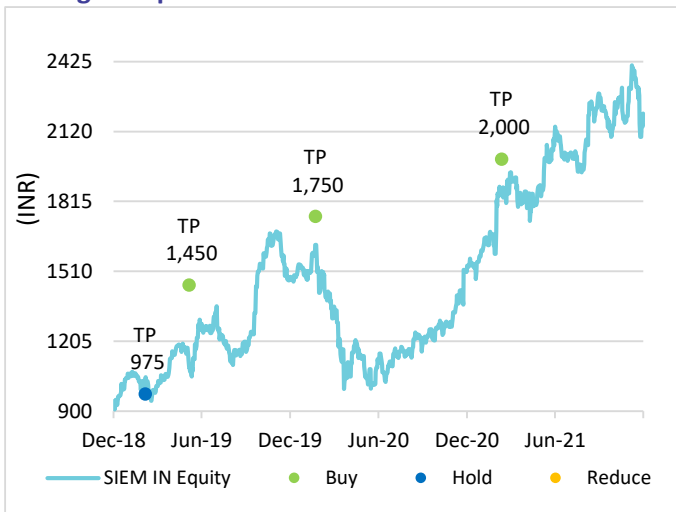
Recent Company Research

Date	Title	Price	Reco
24-Nov-21	Cyclically and structurally attractive; <i>Result Update</i>	2276	Buy
11-Aug-21	Slight blip; talking growth; <i>Result Update</i>	2060	Buy
24-Jun-21	Accelerated approach to growth; <i>Company Update</i>	2025	Buy

Recent Sector Research

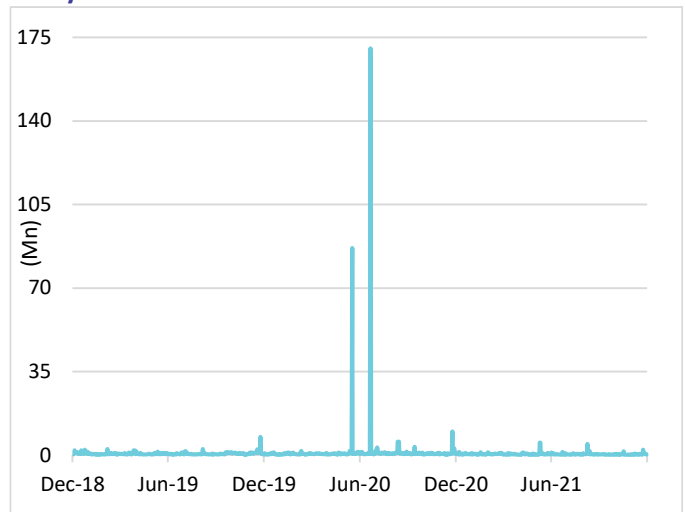
Date	Name of Co./Sector	Title
15-Nov-21	Honeywell Automation	Slower catch-up; better clarity awaited; <i>Result Update</i>
13-Nov-21	Bharat Forge	Strong cyclical recovery; <i>Result Update</i>
12-Nov-21	Thermax	Stable profit & loss; orders spring surp; <i>Result Update</i>

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	186	52	18	257
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	231	40	4	275

*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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