

November 27, 2020

Q4SY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY17E	FY18E
Rating	ACCUMULATE		BUY	
Target Price	1,516		1,402	
Sales (Rs. m)	1,52,810	1,77,973	1,30,006	1,52,357
% Chng.	0.6	0.3		
EBITDA (Rs. m)	17,115	19,933	13,521	15,845
% Chng.	8.4	8.0		
EPS (Rs.)	37.9	44.6	29.0	35.1
% Chng.	9.4	8.1		

Key Financials - Consolidated

Y/e Sep	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	99,465	1,30,845	1,52,810	1,77,973
EBITDA (Rs. m)	10,036	14,655	17,115	19,933
Margin (%)	10.1	11.2	11.2	11.2
PAT (Rs. m)	7,695	11,310	13,495	15,873
EPS (Rs.)	21.6	31.8	37.9	44.6
Gr. (%)	(30.0)	47.0	19.3	17.6
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	8.3	11.4	12.4	13.2
RoCE (%)	8.1	12.0	13.0	13.9
EV/Sales (x)	4.8	3.7	3.1	2.7
EV/EBITDA (x)	48.0	33.2	28.1	23.9
PE (x)	70.0	47.6	39.9	33.9
P/BV (x)	5.7	5.2	4.7	4.3

Key Data

SIEM.BO | SIEM IN

52-W High / Low	Rs.1,640 / Rs.947
Sensex / Nifty	44,150 / 12,969
Market Cap	Rs.539bn/ \$ 7,279m
Shares Outstanding	356m
3M Avg. Daily Value	Rs.1928.99m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	8.56
Domestic Institution	5.95
Public & Others	10.49
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	19.5	48.6	2.7
Relative	9.7	6.3	(4.6)

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Ordering momentum witnessed in few segments

Quick Pointers:

- Gross margins improved, however profitability impacted due to additional expenses of Rs2.3bn incurred during the lockdown.
- Currently utilization is at 75% plus level with an uptick in order inflows up 8.7% YoY. Sectors like Pharma, F&B, T&D, etc. remain optimistic.

Siemens Ltd (SIEM) reported healthy set of numbers despite of challenging environment. During 4Q, better revenue was driven by higher share of services business, strong execution of OB and rising labour availability. Further better gross margins and cost control measures helped improve margins during the quarter. OI came in at Rs32bn, up 8.7% YoY led by improvement in ordering activity specially in energy and mobility segment. OB as on SY20 stood at Rs123.6bn, up 4% YoY providing revenue visibility for more than a year. Management highlighted that despite volatility in the business environment with core industrial sectors being negatively impacted, they have noticed initial signs of uptick across some markets post lockdown. Management remains optimistic on segments like Pharma, F&B and T&D to drive growth going ahead.

We remain cautious in medium term owing to gradual pick-up in demand across the sectors, but on long term basis remain positive on the company due to its focus on Digitization and localization, diversified business, high cash flows and robust B/S cash position. We have increased our earnings estimates for SY21E/22E by 9%/8% led by improvement in gross margins. The stock is currently trading at 47.7x/40x SY21E/22E earnings. Due to current run-up in stock price we have downgraded the stock to Accumulate from BUY with a revised TP of Rs1516. (earlier TP of Rs1402).

Cost rationalization measures lead to higher margins: Sales came in at ~Rs35.2bn (down 9% YoY) vs (PLe ~Rs44bn) where portfolio companies grew by 4% YoY while segments like Gas & Power/Smart Infra/Mobility/Digital Industries de-grew by 5%/15%/16%/12% YoY. EBITDA grew by 5.7% YoY at Rs4.5bn (~PLe of Rs4.5bn), with EBITDA margins coming in at 13% v/s 11% in 4QSY19 owing to lower RM, project cost and lower other expenses. PBT declined by 13% YoY at Rs4.5bn due to higher depreciation cost (up, 24% YoY) and lower other income (down, 57% YoY). PAT came in at Rs3.3bn (~ PLe of Rs3.4bn), down 5% YoY.

OB provides revenue visibility for more than a year: OI during 4Q grew by 8.7% YoY led by improvement in ordering activity. OB stands at Rs123.6bn, up 4% YoY providing more than a year-long revenue visibility. Management highlighted that some industrial projects which were deferred in 3Q, have now started to kick-in. Waste to recovery projects ordering have been decent. Increased interest from digitalization, energy efficiency solutions, mobility in railway (~electrification and signaling) are some segments seeing healthy tendering activities. On locomotives side not much tendering has been witnessed.

Exhibit 1: Q4SY20 Result Overview (Rs mn)- PAT impacted due to expenses incurred during the lockdown

Y/e Sep	Q4SY19	Q1SY20	Q2SY20	Q3SY20	Q4SY20	YoY gr. (%)	QoQ gr. (%)	SY20	SY19	YoY gr. (%)
Revenue	38,758	26,686	28,201	13,195	35,190	(9.2)	166.7	99,465	1,37,672	(27.8)
Total Revenues	38,758	26,686	28,201	13,195	35,190	(9.2)	166.7	99,465	1,37,672	(27.8)
Expenditure	34,475	23,321	25,865	13,291	30,661	(11.1)	130.7	89,429	1,22,769	(27.2)
<i>as % of sales</i>	<i>88.9</i>	<i>87.4</i>	<i>91.7</i>	<i>100.7</i>	<i>87.1</i>			<i>89.9</i>	<i>89.2</i>	
Consumption of RM	17,512	11,682	11,549	5,530	14,888	(15.0)	169.2	40,453	61,474	(34.2)
<i>as % of sales</i>	<i>45.2</i>	<i>43.8</i>	<i>41.0</i>	<i>41.9</i>	<i>42.3</i>			<i>40.7</i>	<i>44.7</i>	
Employee Cost	3,317	3,961	4,314	3,676	3,908	17.8	6.3	15,465	16,111	(4.0)
<i>as % of sales</i>	<i>8.6</i>	<i>14.8</i>	<i>15.3</i>	<i>27.9</i>	<i>11.1</i>			<i>15.5</i>	<i>11.7</i>	
Other expenditure	13,646	7,678	10,002	4,085	11,865	(13.1)	190.5	33,511	45,184	(25.8)
<i>as % of sales</i>	<i>35.2</i>	<i>28.8</i>	<i>35.5</i>	<i>31.0</i>	<i>33.7</i>			<i>33.7</i>	<i>32.8</i>	
EBITDA	4,283	3,365	2,336	(96)	4,529	5.7	(4,817.7)	10,036	14,903	(32.7)
Depreciation	507	611	708	722	630	24.3	(12.7)	2,521	2,182	15.5
EBIT	3,776	2,754	1,628	(818)	3,899	3.3	(576.7)	7,515	12,721	(40.9)
Other Income	1,414	855	806	822	614	(56.6)	(25.3)	3,149	3,990	(21.1)
Interest	86	77	111	49	58	(32.6)	18.4	295	117	152.1
PBT	5,104	3,532	2,323	(45)	4,455	(12.7)	(10,000.0)	10,369	16,594	(37.5)
Total Tax	1,608	905	602	1	1,124	(30.1)	1,12,300.0	2,722	5,223	(47.9)
Reported PAT	3,496	2,627	1,721	(46)	3,331	(4.7)	(7,341.3)	7,647	11,371	(32.7)
Adjusted PAT	3,496	2,627	1,721	(46)	3,331	(4.7)	(7,341.3)	7,647	11,371	(32.7)
Adjusted EPS	9.8	7.4	4.8	-0.1	9.4	(4.7)	(7,341.3)	21.6	30.9	(30.0)
Margins (%)	Q4SY19	Q1SY20	Q2SY20	Q3SY20	Q4SY20	bps	bps	SY20	SY19	bps
EBIDTA	11.1	12.6	8.3	-0.7	12.9	182	1,360	10.1	10.8	(74)
EBIT	9.7	10.3	5.8	-6.2	11.1	134	1,728	7.6	9.2	(168)
EBT	13.2	13.2	8.2	-0.3	12.7	(51)	1,300	10.4	12.1	(163)
PAT	9.0	9.8	6.1	-0.3	9.5	45	981	7.7	8.3	(57)
Effective Tax rate	31.5	25.6	25.9	-2.2	25.2	(627)	2,745	26.3	31.5	(522)

Source: Company, PL

Analyst Meet KTA's:

- Business Highlights:** - Most factories which were shut for 1-3 months in 3Q have now opened and possess 75% manpower. Project sites currently are running at 85% capacity utilization levels. During 4Q, company indicated improvement in ordering activities from customers. Supply chain, imports and exports issues have been resolved. Management remains optimistic on sectors like Pharma, F&B, T&D going ahead.
- During 4Q, better revenue was driven by higher shares of services business, strong execution of OB and availability of labourers.
- Reduced travel, no occupancy in offices and lower RM cost headed towards cost savings and thereby led to higher margins in the quarter.
- Order inflow grew by 8.7% YoY at Rs32bn. Management indicated improvement in tendering activity majorly in energy and mobility segment.
- OB stands at Rs123.6bn, up 4% YoY providing revenue visibility for more than a year.
- In SY20 Sales mix for Product/Project/Services stood at 51%/31%/17.7% v/s 55.1%/33%/11/6% in SY19.

- Exports contribution to revenue increased to 24% in SY20 from 18% in SY20. Domestic contribution decreased on account of strict lockdown and stoppage of business activities.

Segment Wise

- **Energy-** Strong recovery in Sept supported by better factory utilisation lead to less revenue decline of 5% YoY in 4Q. PAT was up 8% YoY due to favorable sales mix, execution of higher margin orders and cost rationalization measures. Going ahead company sees growth in transmission in TBCB, waste to recovery business.
- **Smart Infra-** Revenue declined 13% YoY. In 4Q, company saw improving industrial demand. Profitability stood better due to lower impact of shutdown and supply chain issues.
- **Digital Industries-** Revenue de-grew by 13.6% YoY due to challenges in transportation and resource constraints due to partial lockdown. Sectors like F&B, Data centres, pharma are expected to drive growth going ahead.
- **Mobility-** Partial lockdown impacting some project sites and lower capacity utilisation led to revenue decline of 14% YoY. PAT was up 10% YoY due to execution of high margin orders.
- **Outlook-** Management indicated that automotive segment continues to face headwinds specially in PV and CV segment and going ahead sees recovery to be very gradual. Sectors like Water, F&B, are seeing ordering opportunities in warehousing segment. Pharma is doing very well in manufacturing services. T&D sector has been decent and is expected to start playing out once large TBCB orders start kicking-in.
- Some industrial projects which were deferred in 3Q are expected to pick-up.
- On generation side chemical business ordering has been strong for industrial segment. Waste to recovery projects ordering have been decent.
- Increased interest from digitalization, energy efficiency solutions and mobility in railway (~electrification and signaling) have seen lot of tendering activities. On locomotives side not much tendering was seen.

Financials

Income Statement (Rs m)

Y/e Sep	FY20	FY21E	FY22E	FY23E
Net Revenues	99,465	1,30,845	1,52,810	1,77,973
YoY gr. (%)	(27.8)	31.5	16.8	16.5
Cost of Goods Sold	40,453	56,264	65,708	76,528
Gross Profit	59,012	74,582	87,102	1,01,445
Margin (%)	59.3	57.0	57.0	57.0
Employee Cost	15,465	18,318	21,393	24,916
Other Expenses	10,340	6,150	7,182	8,365
EBITDA	10,036	14,655	17,115	19,933
YoY gr. (%)	(32.7)	46.0	16.8	16.5
Margin (%)	10.1	11.2	11.2	11.2
Depreciation and Amortization	2,521	2,688	2,909	3,179
EBIT	7,515	11,967	14,205	16,754
Margin (%)	7.6	9.1	9.3	9.4
Net Interest	295	523	458	534
Other Income	3,149	3,677	4,294	5,001
Profit Before Tax	10,369	15,120	18,041	21,221
Margin (%)	10.4	11.6	11.8	11.9
Total Tax	2,674	3,810	4,546	5,348
Effective tax rate (%)	25.8	25.2	25.2	25.2
Profit after tax	7,695	11,310	13,495	15,873
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	7,695	11,310	13,495	15,873
YoY gr. (%)	(30.0)	47.0	19.3	17.6
Margin (%)	7.7	8.6	8.8	8.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	7,695	11,310	13,495	15,873
YoY gr. (%)	(30.0)	47.0	19.3	17.6
Margin (%)	7.7	8.6	8.8	8.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,695	11,310	13,495	15,873
Equity Shares O/s (m)	356	356	356	356
EPS (Rs)	21.6	31.8	37.9	44.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Sep	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	21,938	24,438	26,938	29,438
Tangibles	21,938	24,438	26,938	29,438
Intangibles	-	-	-	-
Acc: Dep / Amortization	10,267	12,955	15,864	19,044
Tangibles	10,267	12,955	15,864	19,044
Intangibles	-	-	-	-
Net fixed assets	11,671	11,483	11,074	10,394
Tangibles	11,671	11,483	11,074	10,394
Intangibles	-	-	-	-
Capital Work In Progress	1,170	1,170	1,170	1,170
Goodwill	-	-	-	-
Non-Current Investments	5,517	2,355	2,751	3,204
Net Deferred tax assets	2,524	2,524	2,524	2,524
Other Non-Current Assets	10,560	14,393	16,809	19,577
Current Assets				
Investments	-	-	-	-
Inventories	11,152	14,339	16,746	19,504
Trade receivables	31,402	41,225	48,146	56,074
Cash & Bank Balance	57,096	52,398	57,614	61,972
Other Current Assets	22,037	20,935	22,922	26,696
Total Assets	1,56,078	1,70,729	1,90,984	2,14,607
Equity				
Equity Share Capital	712	712	712	712
Other Equity	94,208	1,03,030	1,13,555	1,25,936
Total Network	94,920	1,03,742	1,14,267	1,26,648
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	27,871	28,678	33,493	39,008
Other current liabilities	35,811	40,833	45,748	51,475
Total Equity & Liabilities	1,56,078	1,70,729	1,90,984	2,14,607

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Sep	FY20	FY21E	FY22E	FY23E
PBT	10,356	15,120	18,041	21,221
Add. Depreciation	2,521	2,688	2,909	3,179
Add. Interest	295	523	458	534
Less Financial Other Income	3,149	3,677	4,294	5,001
Add. Other	(1,876)	-	-	-
Op. profit before WC changes	11,296	18,331	21,409	24,934
Net Changes-WC	(1,095)	(13,708)	(5,719)	(8,703)
Direct tax	(3,004)	(3,810)	(4,546)	(5,348)
Net cash from Op. activities	7,197	813	11,144	10,883
Capital expenditures	(102)	(2,500)	(2,500)	(2,500)
Interest / Dividend Income	3,114	-	-	-
Others	5,697	-	-	-
Net Cash from Inv. activities	8,709	(2,500)	(2,500)	(2,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(3,005)	(2,488)	(2,969)	(3,492)
Interest paid	(130)	(523)	(458)	(534)
Others	(725)	-	-	-
Net cash from Fin. activities	(3,860)	(3,012)	(3,427)	(4,026)
Net change in cash	12,046	(4,698)	5,216	4,357
Free Cash Flow	7,017	(1,687)	8,644	8,383

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Sep	Q1SY20	Q2SY20	Q3SY20	Q4SY20
Net Revenue	26,686	28,201	13,195	35,190
YoY gr. (%)	(4.9)	(20.6)	(58.7)	(9.2)
Raw Material Expenses	11,682	11,549	5,530	14,888
Gross Profit	15,004	16,652	7,665	20,302
Margin (%)	56.2	59.0	58.1	57.7
EBITDA	3,365	2,336	(96)	4,529
YoY gr. (%)	9.8	(43.0)	(102.7)	5.7
Margin (%)	12.6	8.3	(0.7)	12.9
Depreciation / Depletion	611	708	722	630
EBIT	2,754	1,628	(818)	3,899
Margin (%)	10.3	5.8	(6.2)	11.1
Net Interest	77	111	49	58
Other Income	855	806	822	614
Profit before Tax	3,532	2,323	(45)	4,455
Margin (%)	13.2	8.2	(0.3)	12.7
Total Tax	905	602	1	1,124
Effective tax rate (%)	25.6	25.9	(2.2)	25.2
Profit after Tax	2,627	1,721	(46)	3,331
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,627	1,721	(46)	3,331
YoY gr. (%)	15.2	(38.6)	(101.9)	(4.7)
Margin (%)	9.8	6.1	(0.3)	9.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,627	1,721	(46)	3,331
YoY gr. (%)	15.2	(38.6)	(101.9)	(4.7)
Margin (%)	9.8	6.1	(0.3)	9.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,627	1,721	(46)	3,331
Avg. Shares O/s (m)	356	356	356	356
EPS (Rs)	7.4	4.8	(0.1)	9.4

Source: Company Data, PL Research

Key Financial Metrics

Y/e Sep	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	21.6	31.8	37.9	44.6
CEPS	28.7	39.3	46.1	53.5
BVPS	266.6	291.4	321.0	355.8
FCF	19.7	(4.7)	24.3	23.5
DPS	-	-	-	-
Return Ratio(%)				
RoCE	8.1	12.0	13.0	13.9
ROIC	15.7	19.1	20.7	21.4
RoE	8.3	11.4	12.4	13.2
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.5)	(0.5)	(0.5)
Net Working Capital (Days)	54	75	75	75
Valuation(x)				
PER	70.0	47.6	39.9	33.9
P/B	5.7	5.2	4.7	4.3
P/CEPS	52.7	38.5	32.8	28.3
EV/EBITDA	48.0	33.2	28.1	23.9
EV/Sales	4.8	3.7	3.1	2.7
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Oct-20	BUY	1,402	1,275
2	11-Aug-20	BUY	1,402	1,159
3	08-Jul-20	BUY	1,402	1,157
4	14-May-20	BUY	1,402	1,049
5	16-Apr-20	BUY	1,406	1,193
6	12-Feb-20	BUY	1,676	1,496
7	03-Jan-20	BUY	1,687	1,511

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	880	894
2	Ahluwalia Contracts (India)	BUY	288	237
3	Ashoka Buildcon	BUY	147	69
4	Bharat Electronics	Accumulate	110	103
5	BHEL	Hold	34	28
6	Capacite's Infraprojects	BUY	162	144
7	Container Corporation of India	BUY	468	378
8	Cummins India	Accumulate	472	434
9	Engineers India	BUY	104	73
10	GE T&D India	Hold	86	86
11	H.G. Infra Engineering	BUY	259	186
12	IRB Infrastructure Developers	BUY	152	109
13	ITD Cementation India	BUY	67	50
14	J.Kumar Infraprojects	BUY	176	105
15	Kalpataru Power Transmission	BUY	296	251
16	KEC International	Accumulate	339	338
17	KNR Constructions	BUY	336	255
18	Larsen & Toubro	BUY	1,284	935
19	NCC	BUY	83	36
20	PNC Infratech	BUY	219	167
21	Power Grid Corporation of India	BUY	205	170
22	Sadbhav Engineering	BUY	87	48
23	Siemens	BUY	1,402	1,275
24	Thermax	Accumulate	798	790
25	Triveni Turbine	BUY	85	69
26	Voltamp Transformers	BUY	1,283	1,032

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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