

Growth prospects remain strong, healthy...

We recently attended the analyst meet of Siemens Ltd (Siemens). The order opportunity pipeline remains healthy across segments with solar, Statcoms, power evacuation, GIS substations as TBCB gaining momentum and good traction in waste heat recovery (WHR) plants from private customers in steel, cement, chemical, fertiliser, etc. In smart infrastructure, a lot of traction is seen in data centres, hospitals, building management systems, low voltage products with fairly visible opportunity pipeline. Revenue growth in H1FY21 was aided by short cycle products business (Smart Infrastructure and Digital Industries) primarily driven by private customers. Exports business saw a marginal increase to 21.8% for H1FY21. It was able to control discretionary expenses driven through continued efforts on optimisation of fixed costs. Order backlog was healthy at ₹ 12677 crore.

Digital industries, smart infra, mobility to drive future growth...

For Q2FY21, overall revenue growth was driven by gas & power (energy) segment, which grew 16% to ₹ 1191.3 crore. Smart infrastructure grew 48.5% to ₹ 1150.1 crore, digital industries revenue grew 50.3% to ₹ 791.7 crore while mobility revenue grew 1.3% YoY to ₹ 258.9 crore. Siemens is witnessing increased demand short cycle products in industrial and electrical products in power transmission, digital grid and distribution systems. Digital industries are witnessing high demand from pharma, food & beverages, machine tools, etc. **Mobility** would be driven by capex in railways, high speed rail, metros, DFC. We believe Siemens's growth will be driven by **digital industries, mobility, smart infrastructure, which is expected to grow at ~17%, ~13%, ~17.3% CAGR, respectively, in FY21E-23E.**

Segment mix, operational efficiencies to drive superior margins

For Q2FY21, EBIT margins across segments improved sequentially aided by better contribution from short cycle products and services. Gas & power reported EBIT margin of 15.1%, up 250 bps QoQ, smart infrastructure EBIT margin was at 8.6% (vs. 7.5% QoQ), mobility segment EBIT margin improved 30 bps to 11.2% on a QoQ basis while digital industries EBIT margin declined 170 bps to 8.7% QoQ. Siemens continues to focus on profits over revenue by range of **rationalisation and optimisation efforts on product mix to enhance market share.** EBITDA margins are expected to improve from 10.1% in FY20 to 12.2% in FY23E.

Valuation & Outlook

Overall, Siemens is expected to further strengthen its leadership position through further penetration of **automation and digitisation products & services across segments**, particularly in digital industries, smart infrastructure, mobility segments, driving long term growth. We revise our target price to ₹ 2390/share (earlier ₹ 2295) and maintain **BUY** rating, implying multiple of 50x FY23E EPS for core business and valuing C&S business at 2.1x FY23E sales.

Key Financial Summary

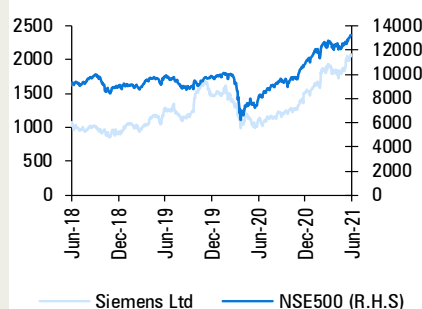
(₹ Crore)*	FY19	FY20	FY21E	FY22E	FY23E	CAGR FY21-23E
Revenue (₹ crore)	13,083.9	9,946.5	12,309.1	14,195.3	16,209.6	14.8%
EBITDA (₹ crore)	1,526.1	1,003.6	1,452.6	1,688.5	1,995.8	17.2%
EBITDA margin (%)	11.7	10.1	11.8	11.9	12.3	
Net Profit (₹ crore)	1,135.6	769.5	1,085.8	1,327.3	1,611.2	21.8%
EPS (₹)	31.9	21.6	30.5	37.3	45.2	
P/E (x)	64.7	95.4	67.6	55.3	45.6	
Price / Book (x)	8.1	7.7	7.1	6.5	5.9	
EV/EBITDA (x)	44.8	67.5	46.2	39.4	32.9	
RoCE (%)	19.1	11.2	14.2	15.9	17.5	
RoE (%)	12.5	8.1	10.6	11.8	13.0	

Source: Company, ICICI Direct Research, *September year end

Particulars

Particular	Amount
Market Capitalization	₹ 73432 Crore
Total Debt (FY20)	₹ 0 Crore
Cash and Inv (FY20)	₹ 5710 Crore
EV (FY20)	₹ 67722 Crore
52 week H/L (₹)	2143 / 1020
Equity capital	₹ 71.2 Crore
Face value (₹)	10.0

Price Performance



Key risks to our call

- Any slowdown in smart infrastructure capex across transportation (rail, metro, ports, airports) smart grids, urban infrastructure, T&D, renewables, water infrastructure could adversely affect digital, automation business
- Any slowdown in R&D spending could slow down transition efforts towards industrial automation and digitisation

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Exhibit 1: Variance analysis

Year	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Income from Operation	3483.7	2837.9	22.8	2925.2	19.1	Overall revenue growth driven by smart infrastructure, digital industries, gas & power segment
Other Income	56.3	82.0	(31.3)	58.1	(3.1)	
Cost of materials consumed	1685.4	1276.20	32.1	1550.40	8.7	
Power & Fuel	0.0	0.0	-	0.0	-	
Changes in inventories of finished goods & WIP	(86.1)	(121.3)	(29.0)	(132.2)	(34.9)	
Employee cost	381.0	432.4	(11.9)	398.2	(4.3)	
Other expenses	263.4	394.0	(33.1)	166.8	57.9	Reduced other expenses owing to operational efficiencies
EBITDA	457.8	237.5	92.8	367.6	24.5	
EBITDA Margin (%)	13.1	8.4	477 bps	12.6	57 bps	
Depreciation	65.6	71.3	(8.0)	61.9	6.0	
Interest	5.8	11.2	(48.2)	3.5		
PBT	442.7	237.0	86.8	360.3	22.9	
Taxes	120.8	61.3	97.1	92.6	30.5	
PAT	321.9	175.7	83.2	267.7	20.2	
	0.273	0.259		0.257		
Segment Revenue	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	
Gas & Power/ Energy	1191.3	1026.7	16.0	1016.9	17.2	
% Contribution	34%	35%		34%		
Smart Infrastructure	1150.1	774.5	48.5	882.1	30.4	
% Contribution	32%	27%		29%		
Mobility	258.9	255.6	1.3	210.5	23.0	
% Contribution	7%	9%		7%		
Digital Industries	791.7	526.7	50.3	769.9	2.8	
% Contribution	22%	18%		26%		
Portfolio of Companies	130.5	291.0	(55.2)	93.6	39.4	
% Contribution	4%	10%		3%		

Source: Company, ICICI Direct Research, September Year End.

Exhibit 2: Change in estimates

	FY19	FY20	FY21E			FY22E			FY23E		
(₹ Crore)	Actual	Actual	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	13,084	9,947	12,309	12,309	0.0	14,195	14195	0.0	16,151	16210	0.4
EBITDA	1,526	1,004	1,453	1,453	(0.0)	1,691	1,689	(0.1)	1,969	1,996	1.4
EBITDA Margin (%)	11.7	10.1	11.8	11.8	0 bps	11.9	11.9	-1 bps	12.2	12.3	11 bps
PAT	1,136	769	1,086	1,086	0.0	1,327	1,327	0.0	1,563	1,611	3.1
EPS (₹)	31.9	21.6	30.5	30.5	(0.0)	37.3	37.3	(0.1)	43.9	45.2	3.1

Source: Company, ICICI Direct Research

Valuation Summary

Exhibit 3: One year forward rolling P/E band

Particulars	Multiple	FY23E Valuation (₹ crore)	Value per share
Siemens	P/E (x)	50.0	80558
C&S Acquisition	P/Sales (X)	2.1	4541
Total	-	85100	2390

Source: Company, ICICI Direct Research

Key analyst meet highlights

- **Opportunity Pipeline:** The order opportunity pipeline stays healthy. There was no major order cancellation, only some order finalisation delay has happened. On the energy side, it is seeing good demand in solar, Statcoms, power evacuation, **GIS** substations as TBCB is gaining momentum and good traction in **waste heat recovery (WHR)** plants from private customers in steel, cement, chemical, fertiliser etc, with focus on de-carbonise and increase efficiency. Also, water management activities are gaining traction with much more demand coming in orders. On the mobility side, dedicated freight corridor projects, signalling technologies, electrification, metros etc
- **Order inflows:** Q2FY21 order inflows were driven by ongoing recovery in key markets with strength in short cycle projects. Some large orders received during H1FY21 were a mix of government and private orders. Strong order backlog maintained
- **Business operations:** Factories and project sites were largely operational as there was no major impact on its ability to deliver projects. During second wave, the business faced supply chain impact, higher commodity prices, shortage of semiconductors, customers deferring decisions due to higher commodity prices. However, long term business prospects remain strong and positive
- **Q2FY21 performance:** Broad based growth across businesses, margins partially aided by forex and commodity gains while some headwinds faced from supply chain disruptions (e.g. semiconductors) higher logistics costs, lower export incentives. Gross margins were impacted by increased material cost, higher logistics cost partially offset by controlled operating expenses and pricing actions
- **Growth in short cycle products:** The company saw growth aided by short cycle products business (smart infrastructure and digital industries segments) primarily driven by private customers. Exports business saw a marginal increase to 21.8% for H1FY21
- **Control on discretionary expenses:** Bundle of cost control measures, discretionary spending on low level driven by continued efforts on optimisation of fixed costs, electricity, maintenance, travelling costs, hiring freeze, etc
- **Energy Business:** Order inflows growth driven by contribution from generation and service business. There were major orders from private and government customers in WHR, GIS substations, etc. Strong operational execution led to improved margins
- **Smart infrastructure business:** Growth driven by higher customer offtake in short cycle industrial and electrical products. Margin improvement was owing to higher capacity utilisation
- **Digital Business:** During H1FY21, it registered broad based volume surge across main verticals. Order inflows are seeing high customer demand from pharma, food & beverages, intralogistics, machine tools etc. revenue growth was driven by higher customer offtake. Margins improved by cost control measures, productivity gains and conversions from short cycle business
- **Mobility business:** During H1FY21, mobility business witnessed some pandemic related shifts in key tenders/ bids impacting order inflows. Muted revenue owing to lower demand in passenger locomotive components while rail infrastructure saw positive momentum. Margins were impacted by unfavourable revenue mix

- **C&S Acquisition:** Completed C&S acquisition on March 1, 2021 with focus on addressing local demand and creating an export hub. The business has done fairly well in April and May 2021
- **Digitisation automation:** Seeing lot of traction in automation and digitisation products from pharma, chemicals space, etc. There has been substantial interest from cyber security Industry 4.0, additive manufacturing, energy efficiencies, industrial security, etc. Industry interest in this field has gone up exponentially over the past couple of years
- **Outlook:** Short cycle business is witnessing strong demand with clear traction from steel, cement, chemical, pharma, fertiliser for short cycle projects/ products. While on long cycle projects in transmission from government, utilities are deferring projects due to pandemic while longer term pipeline remains intact with visible demand for GIS substations. On generation side, waste heat recovery (WHR) plants largely from steel, cement, chemical, fertiliser players are seeing lot of demand and conversions. In smart infrastructure, a lot of traction is seen in data centres, hospitals, building management systems, low voltage products with fairly visible opportunity pipeline

Financial Summary

Exhibit 8: Profit and loss statement				
₹ crore				
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Net Sales	9,946.5	12,309.1	14,195.3	16,209.6
Other Operating Income	-	-	-	-
Total Operating In	9,946.5	12,309.1	14,195.3	16,209.6
% Growth	(24.0)	23.8	15.3	14.2
Other Income	314.9	258.5	354.9	429.6
Total Revenue	10,261.4	12,567.6	14,550.2	16,639.2
Cost of materials con	1,776.2	2,584.9	3,406.9	3,938.9
Purchase of stock-in-h	2,163.7	2,584.9	2,271.3	2,593.5
Other Expenses	1,034.0	1,280.1	1,433.7	1,588.5
Total expenditure	8,942.9	10,856.5	12,506.8	14,213.8
EBITDA	1,003.6	1,452.6	1,688.5	1,995.8
% Growth	(34.2)	44.7	16.2	18.2
Interest	29.5	12.3	14.2	11.3
Depreciation	252.1	247.7	255.4	260.9
PBT	1,036.9	1,451.0	1,773.8	2,153.1
Tax	267.4	365.2	446.5	541.9
PAT	769.5	1,085.8	1,327.3	1,611.2
% Growth	(32.2)	41.1	22.2	21.4
EPS	21.6	30.5	37.3	45.2

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
₹ crore				
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Profit after Tax	768.6	1,085.8	1,327.3	1,611.2
Depreciation	252.1	247.7	255.4	260.9
Interest	29.5	12.3	14.2	11.3
Other income	(314.9)	(258.5)	(354.9)	(429.6)
Prov for Taxation	267.4	365.2	446.5	541.9
Cash Flow before WC changes	1,002.7	1,452.6	1,688.5	1,995.8
Change in Working Capital	421.0	(374.8)	(273.0)	(176.4)
Taxes Paid	(267.4)	(365.2)	(446.5)	(541.9)
Cashflow from Operating A	1,156.3	712.6	969.0	1,277.4
(Purchase)/Sale of Fixed Assets	(258.8)	(108.5)	(311.5)	(318.0)
(Purchase)/Sale of Investments	-	-	(10.0)	(15.0)
Other Income	-	-	-	-
Cashflow from Investing A	(258.8)	(108.5)	(321.5)	(333.0)
Issue/(Repayment of Debt)	-	-	-	-
Changes in Minority Interest	-	-	-	-
Changes in Networth	(326.9)	(300.1)	(385.9)	(428.8)
Interest	(29.5)	(12.3)	(14.2)	(11.3)
Others	(436.6)	-	-	-
Cashflow from Financing A	(793.0)	(312.4)	(400.1)	(440.1)
Changes in Cash	707.7	550.1	602.3	933.9
Opening Cash/Cash Equivalent	5,001.9	5,709.6	6,259.7	6,862.0
Closing Cash/ Cash Equivalent	5,709.6	6,259.7	6,862.0	7,795.9

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
₹ crore				
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Share Capital	71.2	71.2	71.2	71.2
Reserves & Surplus	9,420.8	10,206.5	11,147.9	12,330.3
Networth	9,492.0	10,277.7	11,219.1	12,401.5
Total Debt	-	-	-	-
Deferred tax liability (-	-	-	-
Total Liabilities	10,001.4	10,794.5	11,813.2	13,169.4
Gross Block	1,855.5	2,030.5	2,280.5	2,570.5
Acc: Depreciation	877.1	1,109.8	1,357.2	1,610.1
Net Block	1,167.1	1,109.4	1,112.0	1,149.1
Capital WIP	88.0	6.5	60.0	80.0
Investments	-	-	-	-
Inventory	1,115.2	1,399.5	1,555.7	1,554.3
Sundry debtors	3,140.2	3,569.6	4,045.7	4,376.6
Cash and bank balanc	5,709.6	6,259.7	6,862.0	7,795.9
Loans and advances	272.2	344.7	468.4	534.9
Other Current Assets	873.7	283.1	425.9	648.4
Total current Assets	12,716.0	13,456.8	14,990.1	16,741.8
CL& Prov.	3,660.6	3,976.1	4,373.7	4,737.2
Net Current Assets	6,857.2	7,782.0	8,657.4	9,767.7
Total Assets	10,001.3	10,794.5	11,813.1	13,174.3

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
EPS	21.6	30.5	37.3	45.2
Cash EPS	28.7	37.4	44.4	52.6
BV	266.5	288.6	315.0	348.2
DPS	7.0	7.0	9.0	10.0
Cash Per Share	24.6	31.2	38.1	45.2
EBITDA Margin	10.1	11.8	11.9	12.3
PBT / Net Sales	7.6	9.8	10.1	10.7
PAT Margin	7.7	8.8	9.4	9.9
Inventory days	40.9	41.5	40.0	35.0
Debtor days	115.2	105.9	104.0	98.6
Creditor days	102.3	92.0	90.0	87.0
RoE	8.1	10.6	11.8	13.0
RoCE	11.2	14.2	15.9	17.5
RoIC	27.6	47.4	46.9	51.6
P/E	95.4	67.6	55.3	45.6
EV / EBITDA	67.5	46.2	39.4	32.9
EV / Net Sales	6.8	5.5	4.7	4.0
Market Cap / Sales	7.4	6.0	5.2	4.5
Price to Book Value	7.7	7.1	6.5	5.9
Debt/EBITDA	0.0	0.0	0.0	0.0
Net Debt / Equity	-0.6	-0.6	-0.6	-0.6
Current Ratio	1.5	1.4	1.5	1.5
Quick Ratio	1.2	1.1	1.1	1.2

Source: Company, ICICI Direct Research

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