

BSE SENSEX

51,935

S&P CNX

15,575

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SIEMENS

Stock Info

Bloomberg	SIEM IN
Equity Shares (m)	356
M.Cap.(INRb)/(USDb)	733.3 / 10.1
52-Week Range (INR)	2143 / 1020
1, 6, 12 Rel. Per (%)	3/19/27
12M Avg Val (INR M)	1664

Financials & Valuations (INR b)

Y/E Sep	2020	2021E	2022E
Sales	98.7	128.3	146.6
EBITDA	9.9	15.3	17.9
PAT	7.6	11.4	13.5
EBITDA (%)	10.0	11.9	12.2
EPS (INR)	21.3	32.1	37.8
EPS Gr. (%)	-32.6	51.0	17.7
BV/Sh. (INR)	266.1	291.7	320.4

Ratios

Net D/E	-0.6	-0.4	-0.5
RoE (%)	8.0	11.0	11.8
RoCE (%)	8.4	11.5	12.2
Payout (%)	20.0	20.0	20.0

Valuations

P/E (x)	96.8	64.1	54.5
P/BV (x)	7.7	7.1	6.4
EV/EBITDA (x)	68.4	44.9	37.9
Div Yield (%)	0.3	0.3	0.4
FCF Yield (%)	1.3	1.9	1.8

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	75.0	75.0	75.0
DII	10.6	10.6	10.2
FII	4.4	4.2	4.2
Others	10.1	10.2	10.6

FII Includes depository receipts

CMP: INR2,059
TP: INR1,900 (-8%)
Neutral

Capitalizing on short-cycle orders in uncertain times

Digitalization and automation opportunities pick up even as Projects business remains muted

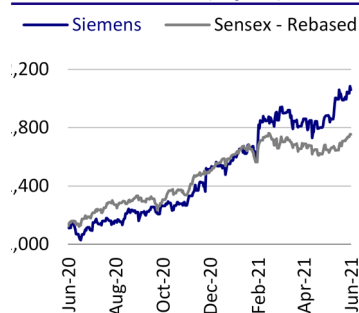
- **Short-cycle orders barely impacted:** Even as the second COVID wave has led to delays in ordering in the Projects business, the short-cycle business is performing well. Business across segments rebounded over Jul'20-Jan'21, following which the momentum tapered. The demand uptick after the first lockdown exceeded the management's expectations, with some portion of the 1HFY21 growth attributable to pent-up demand. An increase in commodity prices, semi-conductor shortage, and a rise in freight costs have led to some delays in ordering and deliveries. However, the outlook across the short-cycle business is healthy as brownfield capex and opex led spending is expected to aid order inflows. On the other hand, ordering in the Utilities segment is expected to be delayed on account of the COVID-led disruption.
- **Uptick in adoption of digital/automation technologies:** SIEM has executed several digital projects in 1HFY21, ranging from value chain digitalization in the Food and Beverage segment to API process simulation in the Pharmaceutical segment. As per the management, these solutions can be deployed across industries and have gained swift acceptance in the last year. SIEM believes the COVID pandemic has accelerated the popularity and implementation of digitalization by a year or two. SIEM has partnered with Ola Electric to establish the world's largest e-vehicle facility. Moreover, it has signed an MoU with Switch Mobility (Ashok Leyland's subsidiary) to provide e-mobility solutions.
- **Data Center biz presents healthy opportunity:** SIEM believes data collection through e-commerce is a large opportunity in the country, with the large aggregators in the world looking to set up data centers in India. While the current opportunity is limited for domestic consumption, export-related opportunity could also play out in the future. Siemens is a significant player in this segment as the company has solutions across various domains as 60–65% of the cost to run a data center constitutes electricity charges (switchgears, substations, building management, and so on). Siemens can cater to 25–30% of the overall data center capex.
- **C&S Electric acquisition to aid growth:** Siemens acquired C&S Electric primarily to address local demand and export its products across the markets where it has a presence. The management expects higher activity in this business in CY21.
- **Structural cost savings to sustain:** Cost-saving measures have been applied across discretionary and structural costs, with the latter expected to sustain. The management expects some amount of discretionary costs to return as normalcy resumes (site visits, business travel, and so on). SIEM expects most of the cost initiatives to sustain and believes the cost structure would not revert to pre-COVID levels in the future.

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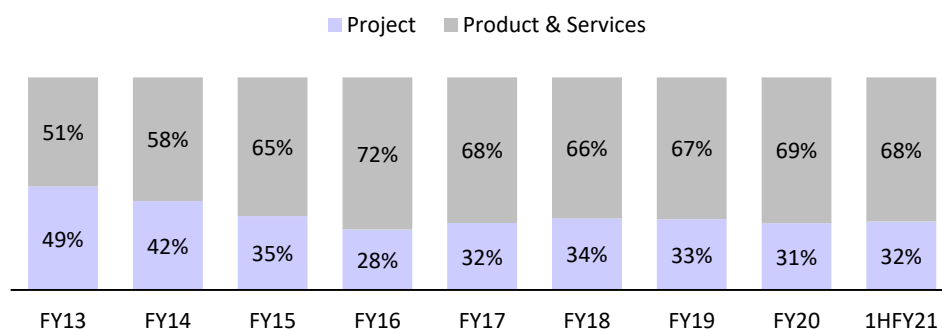
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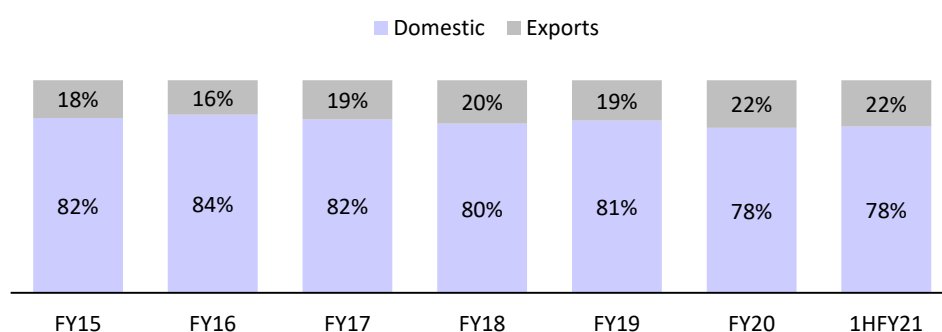
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Stock Performance (1-year)

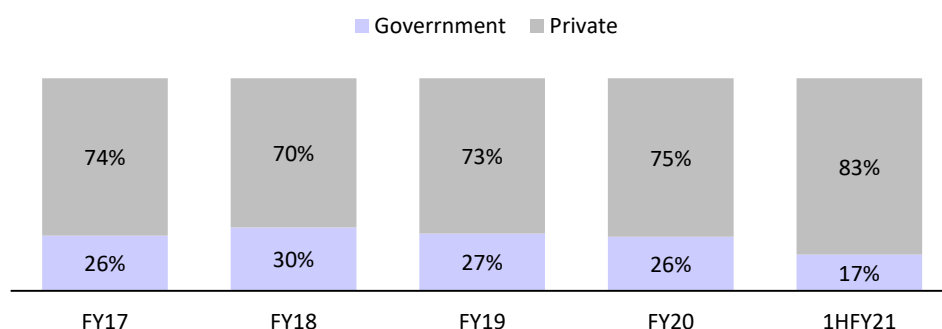
■ **Valuation and view:** We increase our FY22/FY23E EPS by 4%/6% as we expect cost rationalization measures to sustain, leading to a margin uptick. We like SIEM's product portfolio and diverse end-market exposure. The company is poised to benefit over the long term, led by the niche Industrial Automation and Digitalization businesses. However, the stock has seen a sharp re-rating. We maintain our Neutral rating with TP of INR1,900 per share (45x Mar'23E EPS). We prefer ABB over SIEM at current valuations.

Exhibit 1: Revenue mix remains in favor of Products & Services

Source: MOFSL, Company

Exhibit 2: Share of exports up by over 20% from FY20

Source: MOFSL, Company

Exhibit 3: Revenue from private sector over ~80% in 1HFY21

Source: MOFSL, Company

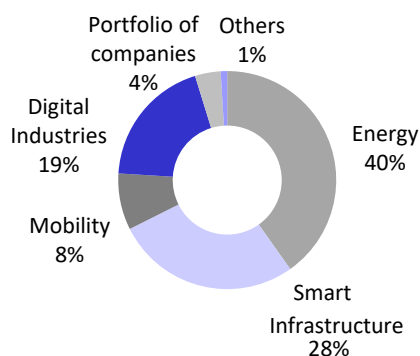
Exhibit 4: Key management takeaways across various segments

Segments	Key comments
Energy	Growth driven by Power Generation and Services segments
Smart Infrastructure	Strong growth in Digital Grid, Distribution Systems, and Electrical Products
Digital Industries	Pharmaceuticals, F&B, Intra-Logistics, and Machine Tools are growing end markets
Mobility	Positive momentum across orders related to Rail Infrastructure

Source: MOFSL, Company

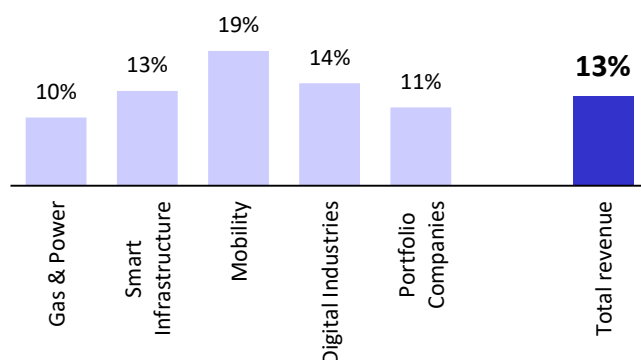
Story in charts

Exhibit 5: Revenue breakdown (FY20)



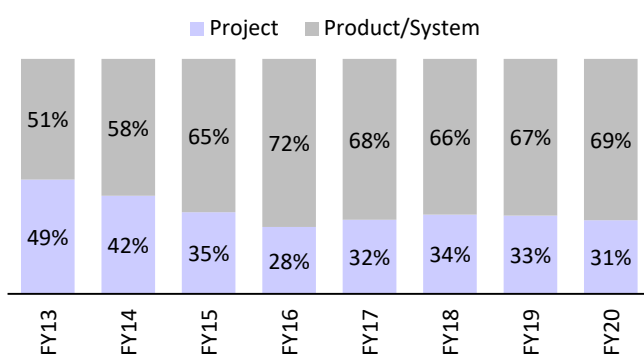
Source: MOFSL, Company

Exhibit 6: Expect 13% revenue CAGR over FY21–23E



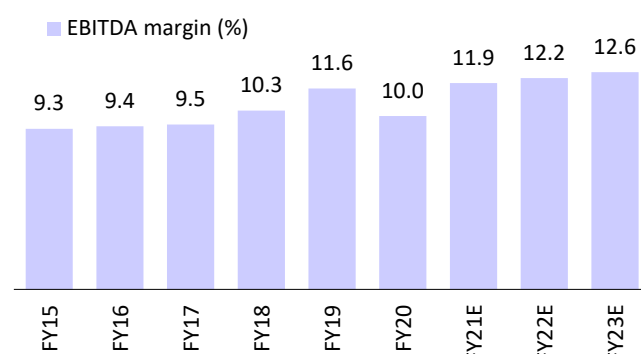
Source: MOFSL, Company

Exhibit 7: Share of Product business on an uptrend



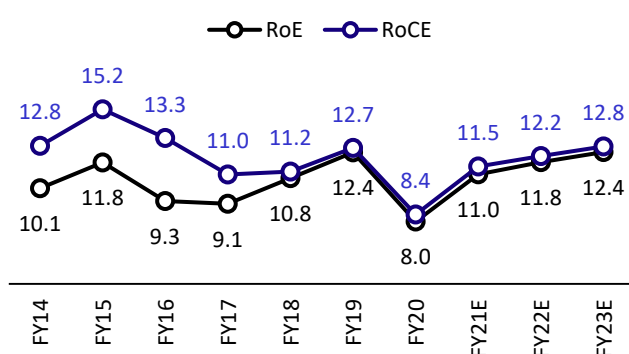
Source: MOFSL, Company

Exhibit 8: EBITDA margin trend



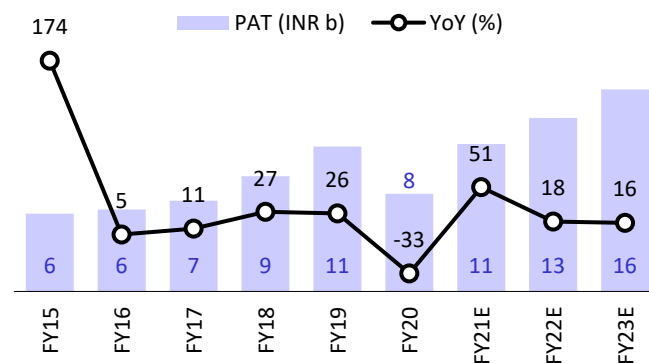
Source: MOFSL, Company

Exhibit 9: Uptrend in RoE/RoCE to continue from FY21E



Source: MOFSL, Company

Exhibit 10: Expect ~17% PAT CAGR over FY21–23E



Source: MOFSL, Company

Exhibit 11: Our TP stands at INR1,900/share

Valuation	Basis	Multiple (x)	Mar'23E EPS	Value/share
Core business	Mar'23E P/E	45.0	40.9	1,840
Acquisition of C&S	Transaction value			60
Total			40.9	1,900

Source: MOFSL, Company



Conference call highlights

Business updates

- The company saw some rebound over Jul'20–Jan'21 (it gained momentum month on month).
- **The short-cycle business is doing well, while the Projects business (largely government-led) has seen some push-back.**
- An increase in commodity prices, semi-conductor shortage, and a rise in freight and logistic costs have impacted ordering and deliveries.

Key orders won in 1HFY21

- A waste heat recovery (WHR) order for a cement plant.
- **Tariff-based competitive bidding (TBCB) orders are also starting to come through; some of these are spillovers from last year. A shift is seen from AIS to GIS in a large portion of the ordering.**
- It has received an order for power distribution, fire safety, building management, video surveillance, and access control services to the Parliament building.
- It has entered into an agreement to offer e-mobility solutions to a subsidiary of Ashok Leyland – Siemens would enhance the performance of its charging stations.

Digital successes

- In the F&B segment, Siemens enhanced the performance of an entire set of machines, leading to a 7% reduction in production cost / MT.
- Pharma API: It launched the gPROMS application, which helps reduce the time to market by modeling and simulating APIs.

Profitability and cost control

- Inventory was ramped up for seasonal products such as Fans and ACs. However, since April and May have almost been a washout, this inventory could take some time to liquidate.

Distribution

- **Forex:** It reported INR500m in gains in 1HFY21 v/s an INR900m loss YoY in other expenses.
- It has not only cut discretionary costs but also structural costs. **Structural cost initiatives would stay for long and are not expected to return to the pre-COVID cost structure.**

Energy segment

- **Generation:** Demand was seen primarily from WHR (cement, steel, pharma, fertilizer, and chemical plants).
- **TBCB:** Only certain states are implementing this form of bidding. **Demand clearly exists (tenders have been identified).**
- **Distribution:** Utilities are delaying ordering (due to the COVID impact and commodity cost escalation).
- **Transmission:** There is a huge list of competitors, primarily on the EPC front (14–15) and not the OEM front. Hence, while EPC players buy from OEMs, only a

handful of OEMs (4–5) are available to supply. Since bidding is done by EPC players, these 4–5 OEM players cater to 14–15 EPC players. As a result, EPC players tend to undercut each other to win projects. Siemens has thus far insulated itself from any pricing wars.

Digitalization

- These solutions are seeing acceptance across industries. Their popularity has surged in the last year and a half.
- **The pandemic has accelerated the popularity and implementation of digitalization by a year or two.**

Localization

- Siemens localized Vacuum interrupter, which is key part of Medium voltage switchgear. Commercial production was commenced on 1st May'21.

Data Center

- Data collection through e-commerce is currently a major trend in the country. The large aggregators in the world are vying to set up data centers in India.
- **Siemens is a significant player in this area. 60–65% of the cost to run a data center constitutes electricity charges (switchgears, substations, building management, and so on).**
- Siemens is capable of catering to **25–30%** of the overall data center capex.

E-Mobility

- This trend is expected to commence sooner, especially in the Commercial Vehicle segment. Tenders are already out, and the program is gaining traction in e-charging.
- **Siemens has expertise in this area (such as charging infra and software).**

Outlook on ordering

- **Not too many greenfield projects are coming up** (tendering activity is moderate). **Brownfields and the opex market are doing very well.**
- **Utilities:** Some delay is seen in ordering as (1) earlier projects are yet to be completed, due to which the focus is on completing existing projects, (2) the company is waiting for commodities to moderate before placing new orders.
- Steel, sugar, chemical, and fertilizers have seen good demand and order conversion.
- **Smart infrastructure:** Data Center, Hospital, and E-Commerce are some of the key end markets with healthy outlooks.
- **Automobile:** This segment may see some revival, but full recovery is expected to be some time away.
- **Pharma, Chemicals, and F&B:** These sectors would benefit from increased automation and digitalization.

Valuation and view

- **Beneficiary of Digitalization and Automation trends:** While capex recovery continues to be elusive, we are seeing strong trends in Digitalization and Automation – as industries aim to improve their operational efficiencies. SIEM and ABB are seeing robust momentum in their respective segments, along with margin expansion.
- **Rising share of Products and Services businesses augurs well for margins:** The EBIT margin increased to 11.4% in 2QFY21 from 7.2% in FY15. With expansion in the Products and Services businesses, margins are expected to increase in FY21E (after the slump witnessed in FY20). The rise in EBIT is primarily attributable to: (a) expansion in the Products and Services businesses and (b) the completion of early loss-making/low-margin projects and execution of high-margin business.
- **Maintain Neutral:** We increase our FY22/FY23E EPS by 4%/6% as we expect cost rationalization measures to sustain, leading to a margin uptick. We like SIEM's product portfolio and diverse end-market exposure. The company is poised to benefit over the long term, led by the niche Industrial Automation and Digitalization businesses. However, the stock has seen a sharp re-rating. We maintain our Neutral rating with TP of INR1,900 per share (45x Mar'23E EPS). We prefer ABB over SIEM at current valuations.

Exhibit 12: Earnings change summary

Earnings change INR m	Old		New		Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	1,46,625	1,62,472	1,46,625	1,62,472	0%	0%
EBITDA	17,496	19,594	17,923	20,425	2%	4%
EBITDA margin	11.9%	12.1%	12.2%	12.6%	0%	1%
Adjusted PAT	12,961	14,821	13,453	15,667	4%	6%

Source: MOFSL, Company

Financials and valuations

Income Statement						(INR b)
Y/E September	FY18	FY19	FY20	FY21E	FY22E	FY23E
Total Revenue	127.3	130.0	98.7	128.3	146.6	162.5
Change (%)	15.5	2.2	-24.1	30.0	14.3	10.8
EBITDA	13.2	15.1	9.9	15.3	17.9	20.4
% Change	25.2	14.8	(34.5)	54.7	17.0	14.0
% of Total Revenue	10.3	11.6	10.0	11.9	12.2	12.6
Depreciation	2.0	2.0	2.5	2.4	2.5	2.6
Interest	0.1	0.1	0.3	0.2	0.2	0.2
Other income	2.8	3.9	3.1	2.5	2.7	3.3
Exceptional items	0.0	-0.4	0.0	0.4	0.0	0.0
PBT	13.9	16.6	10.2	15.7	18.0	20.9
Tax	5.0	5.7	2.6	3.8	4.5	5.3
Rate (%)	35.7	34.5	25.8	24.5	25.2	25.2
Reported PAT	8.9	10.9	7.6	11.8	13.5	15.7
Adjusted PAT	8.9	11.2	7.6	11.4	13.5	15.7
Change (%)	27.1	25.6	(32.6)	51.0	17.7	16.5

Balance Sheet						(INR b)
Y/E September	FY18	FY19	FY20	FY21E	FY22E	FY23E
Share Capital	0.7	0.7	0.7	0.7	0.7	0.7
Reserves	82.3	89.7	94.0	103.1	113.3	125.3
Net Worth	83.1	90.4	94.7	103.8	114.1	126.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0
Net Deferred Tax Liability	-2.7	-2.4	-2.5	-2.5	-2.5	-2.5
Capital Employed	80.4	88.0	92.3	101.4	111.6	123.5
Gross Fixed Assets	19.6	19.7	20.4	21.4	22.4	23.4
Less: Depreciation	6.1	7.8	8.7	11.1	13.6	16.1
Net Fixed Assets	13.5	11.9	11.7	10.3	8.8	7.2
Capital WIP	0.6	0.6	0.9	0.9	0.9	0.9
Investments	0.6	0.6	0.6	21.8	21.8	21.8
Curr. Assets	125.1	136.7	141.1	146.3	169.2	192.3
Inventory	11.4	11.0	11.1	14.4	16.4	18.2
Debtors	37.3	38.8	32.1	41.7	47.6	52.8
Cash and Bank Balance	36.5	48.9	55.5	45.1	54.6	66.2
Loans and Advances	8.7	8.5	7.8	7.8	7.8	7.8
Other Assets	31.3	29.5	34.7	37.4	42.7	47.3
Current Liab. and Prov.	59.4	61.7	61.9	77.9	89.0	98.7
Creditors	30.3	32.9	27.9	36.3	41.4	45.9
Other Liabilities	18.1	17.0	22.1	26.1	29.8	33.1
Provisions	11.0	11.7	12.0	15.5	17.8	19.7
Net Current Assets	65.7	75.0	79.2	68.4	80.1	93.6
Application of Funds	80.4	88.0	92.3	101.4	111.6	123.5

Financials and valuations

Ratios

Y/E September	FY18	FY19	FY20	FY21E	FY22E	FY23E
Basic (INR)						
Adjusted EPS	25.1	31.5	21.3	32.1	37.8	44.0
Cash EPS	30.6	37.1	28.3	38.7	44.7	51.3
Book Value	233.3	254.0	266.1	291.7	320.4	353.8
DPS	7.0	7.0	7.0	6.4	7.6	8.8
Payout (incl. Div. Tax.)	20.0	20.0	20.0	20.0	20.0	20.0
Valuation (x)						
P/E	82.0	65.3	96.8	64.1	54.5	46.8
Cash P/E	67.2	55.5	72.7	53.1	46.0	40.2
EV/EBITDA	52.9	45.3	68.4	44.9	37.9	32.7
EV/Sales	5.5	5.3	6.9	5.4	4.6	4.1
Price/Book Value	8.8	8.1	7.7	7.1	6.4	5.8
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.4	0.4
Return Ratios (%)						
RoE	10.8	12.4	8.0	11.0	11.8	12.4
RoCE	11.2	12.7	8.4	11.5	12.2	12.8
RoIC	20.8	28.6	19.3	36.6	42.1	48.1
Turnover Ratios						
Debtors (Days)	107	109	119	119	119	119
Inventory (Days)	33	31	41	41	41	41
Creditors (Days)	87	92	103	103	103	103
Asset Turnover (x)	1.6	1.5	1.1	1.3	1.3	1.3
Leverage Ratio						
Net Debt/Equity (x)	(0.4)	(0.5)	(0.6)	(0.4)	(0.5)	(0.5)

Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21E	FY22E	FY23E
(INR b)						
PBT before EO Items	13.9	17.0	10.2	15.3	18.0	20.9
Depreciation	2.0	2.0	2.5	2.4	2.5	2.6
Interest and other	0.0	0.1	0.3	0.2	0.2	0.2
Direct Taxes Paid	5.0	-6.1	-2.9	-3.8	-4.5	-5.3
(Inc.)/Dec. in WC	-10.7	4.4	-1.4	0.4	-2.2	-1.9
Others	0.0	-1.9	1.2	0.4	0.0	0.0
CF from Operations	0.2	15.5	9.8	14.7	13.9	16.5
(Inc.)/Dec. in FA	-1.6	-0.1	-0.1	-1.0	-1.0	-1.0
Free Cash Flow	-1.3	15.3	9.7	13.7	12.9	15.5
(Pur.)/Sale of Investments	0.0	0.2	0.7	-21.2	0.0	0.0
CF from Investments	-1.6	0.1	0.6	-22.2	-1.0	-1.0
(Inc.)/Dec. in Net worth	0.1	0.0	0.0	0.0	0.0	0.0
Interest Paid	0.1	0.1	0.8	0.2	0.2	0.2
Dividend Paid	3.0	3.0	3.0	2.7	3.2	3.8
CF from Fin. Activity	-3.0	-3.1	-3.8	-2.9	-3.4	-3.9
Inc./Dec. in Cash	-4.3	12.5	6.6	-10.4	9.5	11.6
Add: Beginning Balance	40.7	36.5	48.9	55.5	45.1	54.6
Closing Balance	36.5	48.9	55.5	45.1	54.6	66.2

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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