



# AJCONGLOBAL

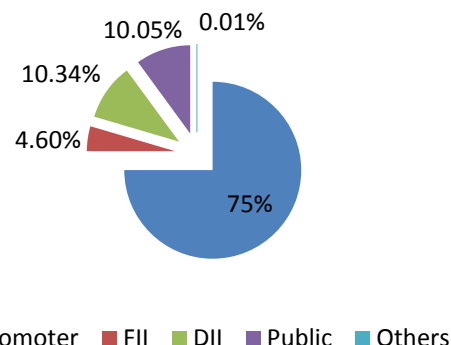
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Investors' Delight: Siemens Limited (Siemens) - "BUY"

August 30, 2021

<b>CMP</b>	<b>Rs. 2,258.40 (Face value: Rs. 2)</b>
<b>Book value</b>	Rs. 287 per share
<b>Recommendation</b>	<b>BUY</b>
<b>Target price</b>	Rs. 2,710
<b>Upside</b>	20%
<b>52 Week High/Low</b>	Rs. 2,298 /Rs. 1,143
<b>Beta</b>	0.93
<b>Market Cap</b>	Rs. 80,426 Crore
<b>EPS (TTM)/P/E(x)</b>	Rs. 30.86/ 72x
<b>NSE/BSE code</b>	SIEMENS/500550
<b>Included</b>	S&P BSE 100
<b>Bloomberg code</b>	SIEM:IN
<b>Promoter holding</b>	75%
<b>Price performance</b>	1 month: 15.63 %, 3 months: 10.86%, YTD: 43.34%, 1 Year: 84.94 %, 3 years: 124.55%

## Shareholding pattern



Particulars (Rs. Crore)	9M - June 21	Sep. 20	Sep. 19	Sep. 18
<b>Topline</b>	9,343	9,946	13,767	12,795
<b>EBITDA</b>	1,236	1,003	1,490	1,327
<b>EBITDA (%)</b>	13.23	10.08	10.82	10.37
<b>Profit after tax</b>	729	769	1,099	901
<b>PAT margin (%)</b>	7.80	7.73	7.98	7.04
<b>Equity share cap.</b>	71.2	71.2	71.2	71.2
<b>Reserves</b>	10,150	9,421	8,978	8,228
<b>Networth</b>	10,221.2	9,492	9,049	8,299
<b>Debtor days</b>	-	115	101	105
<b>EPS (Rs.)</b>	20.46	21.62	30.87	25.31
<b>P/E (x)</b>	-	103	72	88
<b>RoNW (%)</b>	7.13	8.10	12.14	10.86

## Did you know?

- ❖ *Siemens is a leader in technology solutions for intelligent (smart) sustainable cities, smart grid, building technologies, mobility and power distribution*
- ❖ *It also provides solutions to electric vehicles industry..*

## Impressive background

Siemens Limited focuses on intelligent infrastructure for buildings and distributed energy systems and on automation and digitalization in the process, discrete & hybrid manufacturing industries. The Company brings together the digital and physical worlds to benefit customers and society. It offers broad expertise across the entire energy value chain, along with a comprehensive portfolio for utilities, independent power producers, transmission system operators, the oil and gas industry, and other energy-intensive industries. With its products, solutions, systems, and services, it addresses the needs of energy transition, including storage and sector-coupling solutions. It is also a supplier and service provider of intelligent mobility solutions for rail, road and inter-modal transport for passenger and freight services. Siemens Limited is the flagship listed company of Siemens AG in India.

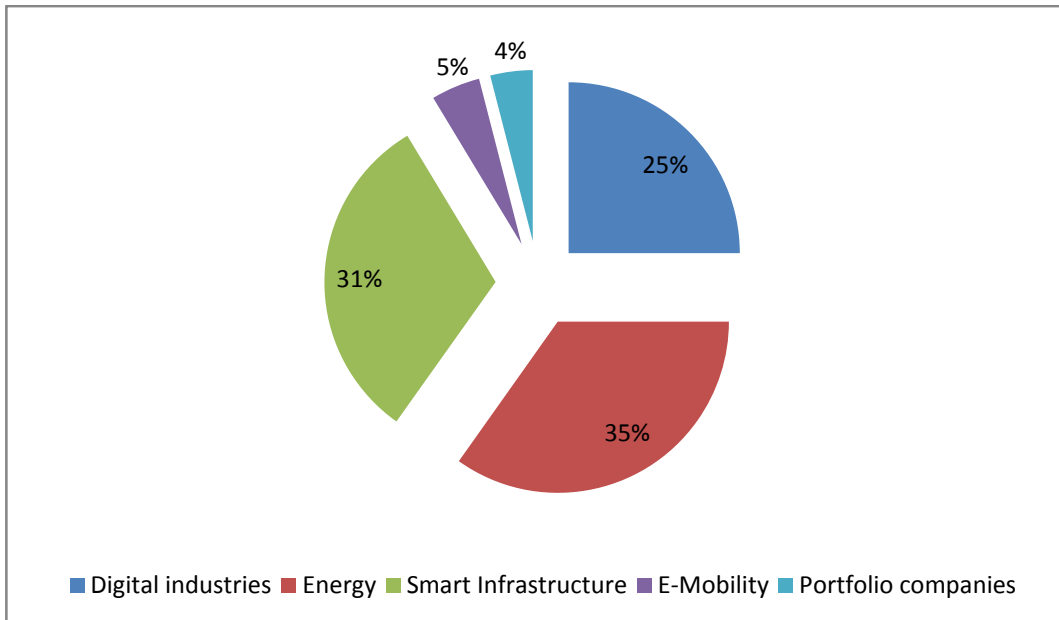
For over six decades, Siemens India has been the preferred technology solutions provider, conceptualizing and implementing various flagship projects in Mobility, Energy Management, Power and Gas, Smart Cities, Intelligent Infrastructure, Industrial Applications, Healthcare and Smart Financing.

## Investment recommendation and rationale

Over the years, Siemens Ltd in India has emerged as a leading inventor, innovator and implementer of leading-edge technology enabled solutions operating in the core business segments of Industry, Energy and Healthcare. At CMP of Rs. 2,288.4, the stock is valued at a P/E of 72x at trailing twelve months EPS. We recommend a "BUY" and assign a target price of Rs. 2,710 (P/E of 60x at estimated FY23 EPS of Rs. 45.16) due to the following factors:

- strong parentage - Siemens AG;
- business model suited to new age;
- best play in Digital industries, smart infrastructure and mobility space;
- technology leadership in digitisation and automation products;
- increased demand for digital technologies, including cybersecurity solutions;
- catering to electric vehicles industry;
- the Company's partnership with OLA to build its upcoming electrical vehicle manufacturing facility will be one of the largest in the world;
- strong growth prospects with good order inflows witnessed and improved traction going ahead;
- for the quarter ended June 2021, the Company witnessed good growth led by short cycle products business in smart infrastructure and digital industries segments;
- new orders and revenue more than doubled in Q3FY21 on YoY basis;
- all business segments record new order growth over pre-pandemic 2019 levels in Q3FY21;
- highest Order Backlog ever as on June 2021 quarter;
- faster economic recovery will lead to increased private sector Capex spending;
- economic recovery resulted in strong operational momentum driving profitable growth and excellent cashflow;
- strong Balance sheet with low debt/ equity;
- positive operating cashflow in last 10 years and decent return ratios.

**Revenue mix as on Q3FY21**



Source: Company

**Digital Industries (25% of topline)**

Digital Industries provides technologies for the automation and digitalization of the discrete, hybrid and process industries, supporting their digital transformation. Its portfolio consists of industrial software, automation & drive technologies for optimizing the manufacturing value chain, covering product design, production planning, engineering, execution and after-sales services. Its 'Digital Enterprise Suite' offers flexibility and efficiency to various discrete industries, general engineering segments and OEMs engaged in machine tools, printing, packaging and electrical panel manufacturing. The business environment in which the Business operates is primarily driven by core sector industries. Digital Industries' made new inroads into segments such as tunnel automation, intralogistics, airport logistics, metros & data centers. The Sitrain Digital Industry Academy expanded its offering to include 'Sitrain access' - a digital learning platform for online training. In spite of the COVID-19 disruption, the engagement with customers across verticals remained high while efforts continued to meet customer requirements via digital channels.

**Big opportunity in digitisation activities across various sectors and good potential to scale up..**

The Company is strong in providing digital solutions in different sectors.

For example, in the paints area, cyber security is where the Company offers the industrial anomaly detection systems, continuous threat detection, where really, the Company is helping the customer to visualize the future where multiple cyber security interventions can be implemented to ensure the safety of the entire operational technology there, the plant, the equipment to subsystems out there. This will ensure that the productivity is secured not only for this company, but these kinds of solutions can be scaled up for not only paint companies which it has done here specifically, but also for similar projects in other verticals. The Company has already started getting an interest. The Company is working with automotive companies now on similar solutions.

On the food and beverage one, this is classical industry 4.0, where the players had a heavy dependence on manual effort, a very limited data capture of their machines, the performance of their machines and very little transparency on their processes. So, a lot of the decisions about how to place the machines, what further efficiencies could be got, were more gut-based rather than data-based and so on. So based on the detailed digital maturity and gap assessment that the Company first did, Siemens then introduced digitally integrated operations, where the machines get interlinked and the Company is able to enhance the performance of the entire set of machines, condition monitoring, energy analytics, all this was brought in, which finally brings a benefit to the customer in increase in the output, in production costs, in reduction in production costs, in unplanned downtime being reduced, in increasing the levels of quality and reducing the quality of rejections.

The Company has the expertise in food and beverages. The Company can expand this expertise to pharma, paints, to all the other verticals that it is operating in which provides huge scalability. With regards to pharma, for example, once a drug has been discovered before start of manufacturing the drug in large scale, drug manufacturers need to do a controlled manufacturing in a pilot plant to figure out what the optimal parameters are for production. For eg. lot size, temperature, pressure, quality to ensure that it get exactly the right ingredients done over here. Siemens did this through introduction of its software, which is actually the Siemens' gPROMS solution. Through this, the Pharma Company can actually reduce the need for the pilot plant manufacturing time through doing process modeling, simulations, etc. This helps in increasing the speed of the time to market greatly.

Again, a classical solution which Siemens does specifically for pharma, but it can be replicated in all the other vertical solutions.

In addition, Siemens has got solutions in building management, the classical manufacturing as well in industry 4.0., remote power management, where again customers can monitor the consumption and health of the low voltage feeders, particularly industrial customer sitting remotely for the entire plant and for multiple plants that they have. In the remote power management, the Company has been able to help customers improve the availability, reduce maintenance time and manpower and improve the power quality.

There quite a lot of such kind of projects where the Company has received a huge interest in the last six to eight months, a very large pipeline of similar projects where customers across multiple market verticals are now engaging with the Company to find solutions to their specific problems.

### **Outlook**

The focus of the Company continues on driving profitable growth with digitalization being a key focus area. Demand continues to grow in the manufacturing industry for automation, cloud-based digital services, data analytics solutions and digitalization in its push towards Industry 4.0. Coupled with advanced automation requirement, higher demand is also expected as customers embark on their digital transformation journey, which would involve investments in cloud-based digital services, data analytics solutions, productivity improvements, process simulation, Cybersecurity etc. The optimal use of data is becoming increasingly important for industry with customers looking for plug-and play connectivity with Internet of Things gateway, structured asset management and seamless integration with customer's systems. Here, the Company's Industrial Edge and cloud-based open Internet of Things platform MindSphere are well-placed to be solutions of choice.

### **Strategic initiatives - Partnership with OLA for its upcoming electrical vehicle**

The Company has partnered with OLA for its electrical vehicle. In the last six months of its partnership with Ola to build its electrical vehicle, the manufacturing facility of OLA will be one of the largest in the world. 2 to 5 million scooters, electric scooters will be manufactured there. With this partnership, OLA will have access through Siemens integrated digital twin design and manufacturing solutions which will help OLA really to digitalize and validate the product, the production and finally the performance activities as well. This is a classical industry 4.0 approach to a Greenfield manufacturing facility.

### **Energy vertical (35% of topline)**

The Company's Energy Business (earlier called Gas and Power) provides fully-integrated products, solutions, and services across the energy value chain of oil and gas production, power generation and transmission to make society carbon neutral. Its offerings include sustainable products, solutions and services that make fossil energy greener. It also helps deliver decentralized, flexible power; manage the complexities of the grid; improve and de-risk aging assets; and connect supply and demand through storage technologies such as grid-scale batteries and Power-to-X technologies.

The Business has a broad customer base that includes oil and gas, utilities, independent power producers, engineering, procurement and construction companies (EPCs), transmission system operators, and industrial companies in sectors such as mining and chemicals. The Government of India has announced the National Infrastructure Pipeline which envisages major investments in infrastructure for the next few years. This program, as well as additional incentives announced by the Government as a response to COVID-19, is expected to accelerate capacity addition and grid improvement. Reliable electricity will continue to be a major component of various infrastructure projects. Increasing electrification and industrialization and improving infrastructure will drive growth in power consumption. With the increasing contribution of renewable energy sources to the energy mix, grid stability and reliability will be a key focus area. New policy measures to push the use of these energy sources are expected to contribute to the achievement of the goals set by the government, for instance, sector coupling, or Power-to-X involving flexible storage capabilities and hydrogen technologies, could emerge as critical innovation areas.

Siemens is involved in the Restructured Accelerated Power Development and Reforms Programme (R-APDRP) of the Government of India for installing Smart Grid solutions in many cities in India. Siemens has signed an MOU with CII (Confederation of Indian Industry) to be the Lead Industry Partner in a consortium for the conceptualization and development of Smart Cities in India.

### **Smart Infrastructure vertical (31% of topline)**

Smart Infrastructure (SI) is shaping the market for intelligent, adaptive infrastructure for today and the future. It addresses the pressing challenges of urbanization and climate change by optimizing the interactions between energy systems, buildings, and industries. This vertical provides customers with a comprehensive end-to-end portfolio from a single source – with products, systems, solutions, and services from the point of power generation all the way to consumption. This is achieved by improving the use of resources in real world with the help of digitalization technologies in the virtual world. The outlook for Smart Infrastructure solutions is expected to improve further in the coming years. The SI business demand is boosted by the need for safety and security in the workplace as well the need for upgrading energy infrastructures. There is also a growing demand for microgrid offerings to manage distributed energy solutions. Digital solutions have the potential to improve the quality of life in cities, on parameters such as optimal use of resources, mobility, productivity and wellbeing. Smart grids enable reliable, cost-efficient, flexible and safe distribution of power in urban areas, which is the need of the hour. Integral solutions being adopted for a fully-digitized power utility, will prove its efficacy towards improving operations and collection. These technologies can facilitate real-time monitoring of demand, lower aggregate technical and commercial losses, billing efficiency, etc. among other benefits. The Company has the digital technology innovations and expertise to transform cities and has been engaging with stakeholders in multiple cities across India to implement integrated smart infrastructure solutions.

### **E-Mobility Solutions (5% of topline)**

The Company's Mobility business offers intelligent and efficient mobility solutions and freight transportation covering the entire gamut of Rail infrastructure comprising signaling and electrification and Rolling Stock components and systems. This is complemented by customer services across all technologies as well as turnkey solutions. During the financial year 2020, orders were impacted due to the halt in economic activities owing to the



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lockdown during COVID-19. The railway network remains the most preferred choice for long-distance travel and movement of bulk commodities, apart from being an energy-efficient and economic mode of conveyance and transport. In recent years the Indian Railways have focused on modernization of infrastructure adding high horsepower locomotives to its fleet, integration of rail network with other modes of transport, developing a multi-modal transportation network, focus on dedicated freight corridor and on automation and digitalization in various solutions and processes.

Indian Railways is driving its infrastructure development with enhanced rate of electrification and adapting modern signaling. The Company's Mobility business continued expansion of its Metro footprint by delivering power supply systems and intelligent infrastructure including Digital simulation technologies for the Kolkata Metro extension contract during the financial year. It also added a new city, Bengaluru, to its country-wide network of metro customers.

Investment in research, design, manufacturing and digitalization will be the key drivers in transformation of Indian Railways. Government of India has focused on investing in railway infrastructure by making investor-friendly policies and has announced initiatives in infrastructure development, electrification, energy efficiency and privatization. In addition to covering the entire range of Rail Infrastructure, the Mobility business is focusing on digitalization. Indian Railways is targeting to increase its freight traffic to 3.3 billion tons and the Mobility businesses sees a great opportunity in partnering the Railways in such projects. Special emphasis is also being given to hygiene, cleanliness, digital systems and safety keeping in mind the COVID-19 impact. The order position of the Company is therefore largely dependent on the timing when these opportunities are tendered.

The Company signed a strategic MOU which Switch Mobility a subsidiary of Ashok Leyland today to work with them on delivering cost-effective E-Mobility solutions which will be available to commercial vehicle customers in India. Siemens will provide the charging infrastructure technology and the charging infrastructure management software solutions which will enhance the performance of the charging stations there. The infrastructure will be supplemented with a management software solution to enhance the energy efficient operation there and both Switch Mobility and Siemens will collaborate on introducing new business models, such as E-Mobility as a service or integrated depot energy management or vehicle to grid as well as the onsite-offsite renewable energy sources by leveraging batteries from commercial vehicles as well. Its an all-encompassing collaboration that Siemens has signed off with Switch Mobility for the EMobility space.

### Good performance in the quarter ended June 2021

Sunil Mathur, Managing Director and Chief Executive Officer, Siemens Limited, said "Siemens Limited has delivered yet another solid performance this quarter despite the challenges of the second wave of the pandemic. All our business segments recorded order income growth over 2019 levels, and we have a very healthy order backlog. The integration activities of our recently acquired C&S business are on track, and we are beginning to realize the first synergy benefits. Increasing the pace of vaccination is critical for economic activity in the country to pick up."

Standalone new orders from continuing operations stood at Rs. 4,341 Crore as against Rs. 1,767 Crore in the same period last year. The Company's Order Backlog stands at a healthy Rs. 14,267 Crore, which is the highest ever. Profit after Tax from continuing operations grew to Rs. 162 Crore from Rs. 10 Crore in the same period last year. The Consolidated New Orders, Revenue and Profit after Tax numbers from continuing operations for the third quarter of Financial Year 2021 ended June 30, 2021, are Rs. 4,584 Crore, Rs. 2,881 Crore and Rs. 139 Crore, respectively. EBITDA stood at Rs. 246 Crore translating into margins of 8.4 percent which were impacted by increase in commodity prices, employee cost and other expenses. Gas & power EBIT margin improved by 380 bps on yoy basis to touch 8 percent. Mobility segment EBIT margin too witnessed a significant improvement to touch 16.5 percent in Q3FY21 (vs. 5.4 percent in Q3FY20) while digital industries and smart infrastructure turned EBIT positive compared to losses in Q3FY20.

### One year price movement chart



Source:Tradingview

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**Buy** – Absolute return of 20% and above

**Accumulate** – Absolute return between 15% and above

**Book profits** - On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

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