

Decent numbers coupled with strong order inflows

About the stock: Siemens Ltd (Siemens) is a leader in technology solutions for smart, intelligent, building technologies, mobility, digital industries and power T&D.

- It operates mainly in five key segments including energy/gas & power (34%), smart infrastructure (33%), digital industries (22%), mobility (7%)
- Well placed to gain from the overall energy market transformation from electrification to automation and digitisation

Q2FY22 Results: Siemens reported a good set of Q2FY22* results.

- Consolidated revenue was at ₹ 3954.7 crore, up 13.5% YoY
- EBITDA came in at ₹ 484.8 crore with margins of 12.3% supported by higher gross margins
- Consequently, PAT came in at ₹ 340 crore (vs. ₹ 321.9 crore in Q2FY21)
- Order inflow for Q2FY22 was pretty strong at ~₹ 5339 crore, up 61.3% YoY

What should investors do? Overall, further penetration of automation & digitisation products and services across segments to drive long term growth.

- We remain long term positive and retain our **BUY** rating on the stock

Target Price and Valuation: We value Siemens at ₹ 2900 on an SoTP basis.

Key triggers for future price performance:

- Strong focus on technology leadership in digitisation and automation products to further strengthen its market share
- Strong demand for short cycle products with clear traction from steel, cement, chemical, pharma, fertiliser industries to drive strong growth and margin expansion in smart infrastructure and digital industries segments
- Expect revenue, EBITDA to grow at CAGR of ~15.3%, 19.7%, respectively, in FY21-23E owing to strong traction in short cycle products and services

Alternate Stock Idea: We also like ABB in our coverage.

- It expects operating margins to improve with increase in capacity utilisation, change in revenue mix, cost optimisation programmes and localisation
- BUY with target price of ₹ 2625



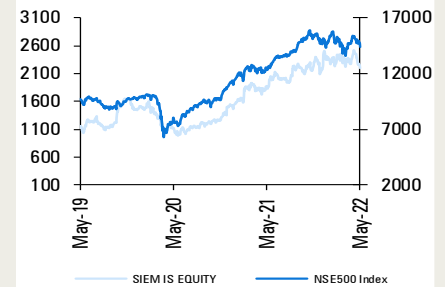
Particulars

Particular	Amount
Market Capitalization	₹ 81658 Crore
Total Debt (FY21)	₹ 3 Crore
Cash and Inv (FY21)	₹ 5159 Crore
EV (FY21)	₹ 76502 Crore
52 week H/L (₹)	2577 / 1920
Equity capital	₹ 71.2 Crore
Face value (₹)	2.0

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	75.0	75.0	75.0	75.0
FII	4.6	5.2	5.4	5.5
DII	10.3	9.9	9.7	9.5
Others	10.1	9.9	9.9	10.0

Price Performance



Recent events & Key risks

- **Key risk:** (i) Any slowdown in capex across infrastructure, transportation etc, (ii) Any slowdown in R&D spending towards automation and digitisation

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Key Financial Summary

(₹ Crore)*	FY19	FY20	FY21	FY22E	FY23E	CAGR FY21-23E
Revenue (₹ crore)	13,083.9	9,946.5	13,639.2	15,621.8	18,124.9	15.3%
EBITDA (₹ crore)	1,526.1	1,003.6	1,518.5	1,718.4	2,175.0	19.7%
EBITDA margin (%)	11.7	10.1	11.1	11.0	12.0	
Net Profit (₹ crore)	1,135.6	769.5	1,050.1	1,305.1	1,715.4	27.8%
EPS (₹)	31.9	21.6	29.5	36.6	48.2	
P/E (x)	71.9	106.1	77.8	62.6	47.6	
Price / Book (x)	9.0	8.6	7.9	7.2	6.5	
EV/EBITDA (x)	50.2	75.7	50.4	44.2	34.5	
RoCE (%)	19.1	11.2	13.9	15.7	18.4	
RoE (%)	12.5	8.1	10.1	11.6	13.7	

Key takeaways of recent quarter & conference call highlights

Q2FY22 Results: Decent numbers coupled with strong order inflows

- Siemens reported consolidated revenue at ₹ 3954.7 crore, which grew 13.5% on a YoY basis. Gas & power (energy) segment marginally grew 0.4% to ₹ 1195.8 crore; Smart infrastructure segment grew 29.5% to ₹ 1489.5 crore. Digital industries segment revenue grew 10.4% to ₹ 874 crore and mobility segment revenue grew 14% YoY to ₹ 295.1 crore. Gas & power, smart infrastructure, digital industries, mobility segments contributed ~30%, ~37%, 22%, 7%, respectively
- Order inflows wins were pretty strong at ₹ 5339 crore, registering growth of 61.3% on a YoY basis led by all business segments. This resulted in an order backlog at ₹ 17174 crore, which indicates a clear upswing in both public and private capex spending
- EBITDA came in at ₹ 484.8 crore with EBITDA margin of 12.3% (vs. 13.1% in Q2FY21) impacted by higher other expenses, lag in passing through input cost increase amid challenges. Gross margins marginally improved by 40 bps to 32% YoY and improved 70 bps QoQ. Gas & power reported EBIT margin of 13.6%, which declined 150 bps YoY, mobility segment EBIT margin improved to 12.4% (vs. 11.2% in Q2FY21) while digital industries and smart infrastructure reported EBIT margins at 11.4% and 6%, respectively
- Reported PAT came in at ₹ 340 crore, up 5.6% YoY
- **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, transmission projects from government, utilities are getting deferred due to pandemic though longer term pipeline remains intact with visible demand for GIS substations. On the generation side, waste heat recovery (WHR) plants largely from steel, cement, chemical, fertiliser players are seeing lot of demand and conversions. In smart infrastructure segment, lot of traction is seen in data centres, hospitals, building management systems, low voltage products with fairly visible opportunity pipeline. A 61% growth in order book with order backlog at an all-time high at ₹ 17174 crore is seen improving growth visibility, going ahead

Exhibit 1: Variance analysis

Year	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Income from Operation	3954.7	3483.7	13.5	3550.4	11.4	Revenue growth driven by smart infrastructure and mobility segment
Other Income	66.8	56.3	18.7	59.6	12.1	
Cost of materials consumed	2167.8	1685.4	28.6	1965.1	10.3	
Changes in inventories of finished goods & WIP	(213.3)	(86.1)	147.7	(151.3)	41.0	
Employee cost	443.8	381.0	16.5	467.5	(5.1)	
Other expenses	337.7	263.4	28.2	280.0	20.6	
EBITDA	484.8	457.8	5.9	364.6	33.0	
EBITDA Margin (%)	12.3	13.1	-88 bps	10.3	199 bps	
Depreciation	80.0	65.6	22.0	80.6	(0.7)	
Interest	13.4	5.8	131.0	6.1		
PBT	458.2	442.7	3.5	337.5	35.8	
Taxes	118.2	120.8	(2.2)	86.7	36.3	
PAT	340.0	321.9	5.6	250.8	35.6	
Segment Revenue	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	
Gas & Power/ Energy	1195.8	1191.3	0.4	1089.2	9.8	
% Contribution	30%	34%		30%		
Smart Infrastrucutre	1489.5	1150.1	29.5	1287.0	15.7	
% Contribution	37%	32%		36%		
Mobility	295.1	258.9	14.0	300.7	(1.9)	
% Contribution	7%	7%		8%		
Digital Industries	873.9	791.7	10.4	791.0	10.5	
% Contribution	22%	22%		22%		
Portfolio of Companies	153.6	130.5	17.7	130.1	18.1	
% Contribution	4%	4%		4%		

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

Exhibit 2: Change in estimates

(₹ Crore)	FY19	FY20	FY21	FY22E			FY23E		
	Actual	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	13,084	9,947	13,639	15,197	15622	2.8	17,031	18125	6.4
EBITDA	1,526	1,004	1,519	1,782	1,718	(3.6)	2,082	2,175	4.5
EBITDA Margin (%)	11.7	10.1	11.1	11.7	11.0	-70 bps	12.2	12.0	-20 bps
PAT	1,136	769	1,050	1,345	1,305	(3.0)	1,625	1,715	5.6
EPS (₹)	31.9	21.6	29.5	37.8	36.6	(3.1)	45.6	48.2	5.6

Source: Company, ICICI Direct Research

Valuation Summary

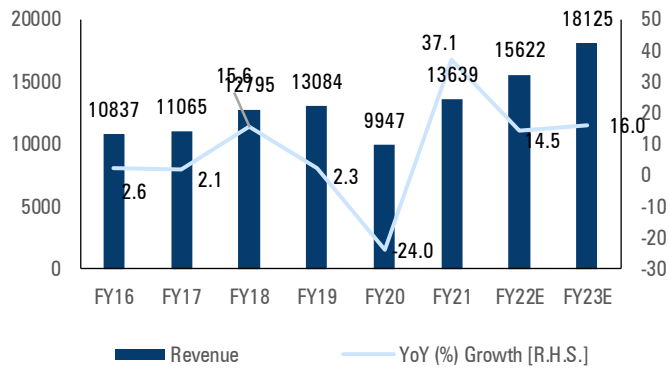
Exhibit 3: SoTP Valuation

Particulars	Multiple	FY23E Valuation (₹ crore)	Value per share
Siemens	P/E (x)	58.0	2794
C&S Acquisition	P/Sales (X)	1.8	106
Total	-	103282	2900

Source: Company, ICICI Direct Research

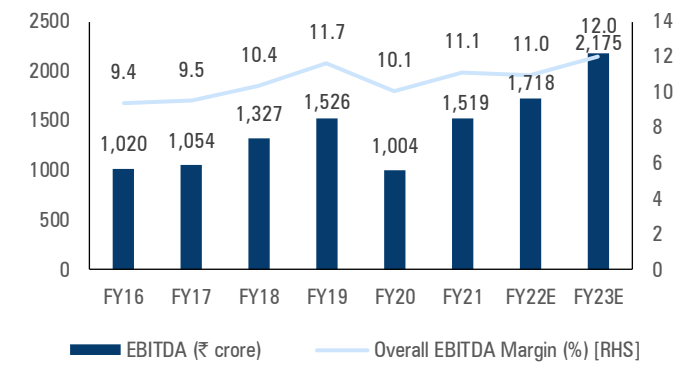
Financial story in charts:

Exhibit 4: Revenue trend...



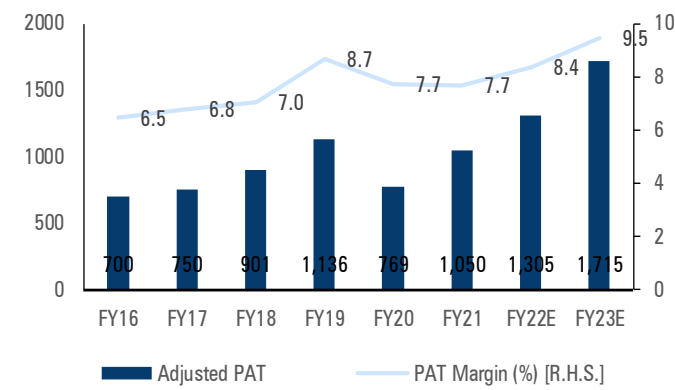
Source: ICICI Direct Research, Company

Exhibit 5: EBITDA and EBITDA margin trend



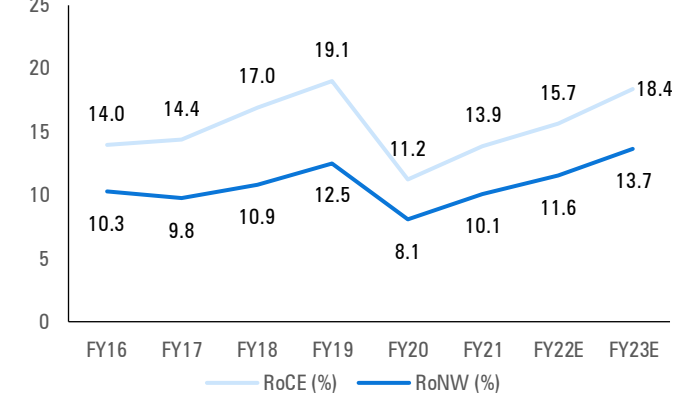
Source: ICICI Direct Research, Company

Exhibit 6: PAT and PAT margin (%) trend....



Source: Company, ICICI Direct Research

Exhibit 7: RoE, RoCE (%) trend...



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Net Sales	9,946.5	13,639.2	15,621.8	18,124.9
Other Operating Inco	-	-	-	-
Total Operating In	9,946.5	13,639.2	15,621.8	18,124.9
% Growth	(24.0)	37.1	14.5	16.0
Other Income	314.9	226.5	374.9	483.9
Total Revenue	10,261.4	13,865.7	15,996.8	18,608.9
Cost of materials con	1,776.2	2,887.4	3,280.6	3,806.2
Purchase of stock-in-	2,163.7	3,911.4	4,217.9	4,893.7
Other Expenses	1,034.0	1,117.3	1,249.7	1,450.0
Total expenditure	8,942.9	12,120.7	13,903.4	15,949.9
EBITDA	1,003.6	1,518.5	1,718.4	2,175.0
% Growth	(34.2)	51.3	13.2	26.6
Interest	29.5	24.6	18.7	14.5
Depreciation	252.1	300.5	322.8	341.9
PBT	1,036.9	1,419.9	1,751.7	2,302.5
Tax	267.4	369.8	446.7	587.1
PAT	769.5	1,050.1	1,305.1	1,715.4
% Growth	(32.2)	36.5	24.3	31.4
EPS	21.6	29.5	36.6	48.2

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

Exhibit 9: Cash flow statement				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Profit after Tax	768.6	1,050.1	1,305.1	1,715.4
Depreciation	252.1	300.5	322.8	341.9
Interest	29.5	24.6	18.7	14.5
Other income	(314.9)	(226.5)	(374.9)	(483.9)
Prov for Taxation	267.4	369.8	446.7	587.1
Cash Flow before WC changes	1,002.7	1,518.5	1,718.4	2,175.0
Change in Working Capital	421.0	(63.5)	(248.5)	(428.0)
Taxes Paid	(267.4)	(369.8)	(446.7)	(587.1)
Cashflow from Operating A	1,156.3	1,085.2	1,023.2	1,159.8
(Purchase)/Sale of Fixed Asset	(258.8)	(2,159.0)	(354.2)	(388.0)
(Purchase)/Sale of Investments	-	(97.1)	(10.0)	(15.0)
Other Income	-	-	-	-
Cashflow from Investing A	(258.8)	(2,256.1)	(364.2)	(403.0)
Issue/(Repayment of Debt)	-	2.5	(2.5)	-
Changes in Minority Interest	-	-	-	-
Changes in Networth	(326.9)	(185.0)	(385.9)	(428.8)
Interest	(29.5)	(24.6)	(18.7)	(14.5)
Others	(436.6)	-	-	-
Cashflow from Financing A	(793.0)	(207.1)	(407.1)	(443.3)
Changes in Cash	707.7	(550.5)	626.8	797.5
Opening Cash/Cash Equivalent	5,001.9	5,709.6	5,159.1	5,785.9
Closing Cash/ Cash Equivalent	5,709.6	5,159.1	5,785.9	6,583.4

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Share Capital	71.2	71.2	71.2	71.2
Reserves & Surplus	9,420.8	10,285.9	11,205.0	12,491.6
Networth	9,492.0	10,357.1	11,276.2	12,562.8
Total Debt	-	2.5	-	-
Deferred tax liability	-	-	-	-
Total Liabilities	10,001.4	11,175.6	12,214.0	13,693.7
Gross Block	1,855.5	2,242.7	2,582.7	2,947.7
Acc: Depreciation	877.1	1,127.6	1,442.4	1,776.4
Net Block	1,167.1	1,303.9	1,329.0	1,360.1
Capital WIP	88.0	33.8	40.0	55.0
Investments	-	-	-	-
Inventory	1,115.2	1,796.9	1,926.0	2,036.0
Sundry debtors	3,140.2	3,683.0	4,202.3	4,766.9
Cash and bank balan	5,709.6	5,159.1	5,785.9	6,583.4
Loans and advances	272.2	606.0	515.5	598.1
Other Current Assets	873.7	367.2	453.0	706.9
Total current Assets	12,716.0	13,152.2	14,648.0	16,721.2
CL& Prov.	3,660.6	4,638.4	4,947.3	5,386.4
Net Current Assets	6,857.2	6,370.2	7,245.5	8,471.0
Total Assets	10,001.3	11,175.6	12,244.9	13,752.6

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
EPS	21.6	29.5	36.6	48.2
Cash EPS	28.7	37.9	45.7	57.8
BV	266.5	290.8	316.6	352.8
DPS	7.0	7.0	9.0	10.0
Cash Per Share	24.6	31.7	40.5	49.9
EBITDA Margin	10.1	11.1	11.0	12.0
PBT / Net Sales	7.6	8.9	8.9	10.1
PAT Margin	7.7	7.7	8.4	9.5
Inventory days	40.9	48.1	45.0	41.0
Debtor days	115.2	98.6	98.2	96.0
Creditor days	102.3	98.3	93.0	89.0
RoE	8.1	10.1	11.6	13.7
RoCE	11.2	13.9	15.7	18.4
RoIC	27.6	40.2	41.1	45.7
P/E	106.1	77.8	62.6	47.6
EV / EBITDA	75.7	50.4	44.2	34.5
EV / Net Sales	7.6	5.6	4.9	4.1
Market Cap / Sales	8.2	6.0	5.2	4.5
Price to Book Value	8.6	7.9	7.2	6.5
Debt/EBITDA	0.0	0.0	0.0	0.0
Net Debt / Equity	-0.6	-0.5	-0.5	-0.5
Current Ratio	1.5	1.4	1.4	1.5
Quick Ratio	1.2	1.0	1.0	1.1

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	1537	1,930	Buy	215672	50.2	65.5	72.9	30.6	23.5	21.1	8.0	10.2	11.1	10.8	12.9	13.2
Siemens Ltd	2293	2,900	Buy	81658	29.5	36.6	48.2	77.8	62.6	47.6	13.9	15.7	18.4	10.1	11.6	13.7
AIA Engineering (AIAENG)	1790	1,895	Hold	16883	56.8	59.9	67.8	31.5	29.9	26.4	14.4	14.2	14.5	11.8	11.3	11.6
Thermax (THERMA)	1919	2,445	Buy	22866	27.4	42.5	48.9	70.1	45.2	39.2	12.1	17.2	18.1	9.5	13.4	13.9
KEC International (KECIN)	365	379	Hold	9374	12.7	15.8	25.3	28.7	23.1	14.4	12.3	13.3	16.9	10.7	11.0	15.4
Greaves Cotton (GREAVE)	143	179	Buy	3297	0.7	2.8	3.3	201.5	51.7	43.2	2.7	10.6	12.5	1.4	7.5	8.9
Elgi Equipment (ELGEQU)	257	410	Hold	8156	4.0	6.3	8.2	64.8	40.7	31.2	12.7	18.0	20.3	14.0	19.1	20.7
Bharat Electronics (BHAELE)	219	250	Buy	53361	9.4	11.2	12.5	23.4	19.5	17.6	26.2	28.7	28.6	19.4	21.4	21.3
Cochin Shipyard (COCSHI)	313	500	Buy	4121	44.0	55.6	-	7.1	5.6	-	15.2	16.0	-	13.0	14.7	-
SKF (SKFIND)	3169	3,720	Buy	15667	77.0	89.6	103.5	41.2	35.4	30.6	26.0	26.5	27.1	20.6	20.0	20.1
Timken India (TIMIND)	1820	2,405	Buy	13690	37.8	43.3	50.1	59.5	46.2	46.2	21.1	27.1	31.3	16.4	21.1	24.4
NRB Bearing (NRBBEA)	111	220	Buy	1074	7.8	9.2	12.1	20.6	17.3	17.3	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	183	290	Buy	2182	9.8	12.7	16.2	18.7	14.4	11.3	22.5	24.4	25.9	15.1	16.6	17.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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