

May 20, 2023

Analyst Meet Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	4,018		4,254	
Sales (Rs. m)	2,08,384	2,40,098	2,20,298	2,52,603
% Chng.	(5.4)	(5.0)		
EBITDA (Rs. m)	27,590	32,269	29,166	33,949
% Chng.	(5.4)	(4.9)		
EPS (Rs.)	59.4	70.5	63.2	74.6
% Chng.	(6.1)	(5.5)		

Key Financials - Consolidated

Y/e Sep	FY22	FY23E	FY24E*	FY25E*
Sales (Rs. m)	1,61,378	1,90,235	2,08,384	2,40,098
EBITDA (Rs. m)	17,573	24,711	27,590	32,269
Margin (%)	10.9	13.0	13.2	13.4
PAT (Rs. m)	12,619	18,661	21,140	25,096
EPS (Rs.)	35.4	52.4	59.4	70.5
Gr. (%)	22.5	47.9	13.3	18.7
DPS (Rs.)	10.0	14.7	62.8	24.7
Yield (%)	0.3	0.4	1.7	0.7
RoE (%)	11.5	15.2	15.4	16.4
RoCE (%)	13.1	17.4	17.4	18.3
EV/Sales (x)	7.8	6.6	6.0	5.2
EV/EBITDA (x)	71.7	50.8	45.2	38.5
PE (x)	105.0	71.0	62.7	52.8
P/BV (x)	11.4	10.2	9.1	8.2

Note*: FY24/25- Readjusted for slump sale of LV motor business

Key Data

SIEM.BO | SIEM IN

52-W High / Low	Rs.3,940 / Rs.2,251
Sensex / Nifty	61,730 / 18,203
Market Cap	Rs.1,326bn / \$ 16,037m
Shares Outstanding	356m
3M Avg. Daily Value	Rs.1231.96m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	6.74
Domestic Institution	8.80
Public & Others	9.46
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	14.1	31.2	62.2
Relative	10.1	31.0	38.7

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Carve out in line with long-term growth strategy

We attended Siemens (SIEM)'s analyst meet where management highlighted, board approval to carve out Low Voltage (LV) and geared motors business (part of Digital Industries segment; 0.12KW to 1.25MW capacity motors) for cash consideration of Rs22bn, translating to 2.1x revenue and 15.5x EBITDA (SY22), based on third party valuation and 100% distribution of proceeds as special dividend (post adjusting capital gain tax-likely to be ~23%). We believe that the sale is in-line with SIEMs long term strategy 1) to be a leading tech-oriented company, 2) consolidate its business in high-growth areas to achieve synergies and 3) move up in value chain by providing solutions for electrification, digitalization and automation. SIEM's also announced acquisition of EV division from Mass-Tech Controls Pvt Ltd (MCPL) for cash consideration of Rs380mn (2.3x EV/sales). We believe that this acquisition will help to 1) address fast-growing demand for EV charging infrastructure in India, 2) expand local market presence, 3) enable creation of exports hub and 4) scale up its range of e-mobility solutions.

We remain positive on SIEM from a long-term perspective given 1) its strong and diversified presence, 2) product localization, 3) focus on cost efficiencies and 4) recent large order wins in mobility business. We revise our estimates by -6.1%/-5.5% for SY24/25 (Sep' yearend), owing to re-adjustment for slump sale of LV motors business. Maintain 'Accumulate' rating on the stock with revised TP of Rs4,018 (Rs4,254 earlier), valuing it at 57X Sep'25.

Sale of LV and geared motors business for cash consideration of Rs22bn:

The sale of LV business is in continuation of group strategy to carve out motors to a separate legal entity (had sold Medium voltage business in SY22 for cash consideration of Rs4.4bn); will be effective from 1st Oct 2023. LV motors segment recorded revenue of Rs10.6bn in FY23 (~7% of SY22 revenue) and PAT of Rs1.3bn, (~ 9.4% of FY22 PAT). The business has short cycle order and focused on outsourced manufacturing model, with Siemens design and stringent quality controls across the supply chain and manufacturing. Transaction is expected to attract capital gain tax of ~23%. Carving out of the motors business from Digital industries segment, won't have any impact on execution synergy, as SIEM's competitive edge is to provide digitalization and automation solutions, whereas motors which are commodities product can be outsourced. Also, the intellectual property rights (IPR) for these products are with Siemens AG and it makes sense to transfer assets. LV motors finds application in Machine building, metals, F&B, chemicals, power, minerals etc.

Acquisition of EV division of MCPL to enhance mobility segment offerings:

Siemens has entered into definitive agreements for acquisition of the EV division of MCPL by way of slump sale for cash consideration of Rs380mn. EV division sales stood at ~Rs167mn (vs Rs57.1mn in FY22 and Rs18.5mn in FY21). The division is engaged in design, engineering and manufacturing of a wide range of AC chargers, and 30 to 300kW capacity DC chargers for various EV end applications.

Other Key Analyst Meet Highlights

Railways: Healthy traction witnessed from railways in areas such as signaling, electrification, rollout of Vande Bharat, locomotive manufacturing (12,000HP locomotive opportunity), etc. In the recently-bagged order for 9000HP locomotives. Another order for 12000HP is expected to come up for tendering by August 2023.

Transmission and Distribution: TBCB projects have picked-up and are doing well. The company expects strong traction in HVDC substations and SATCOM led by substantial investments in renewable energy.

Other areas where the company is very bullish are SCADA systems, MV/LV switchgears, real estate, energy efficiency solutions, fire safety, security systems, semiconductors, battery storage, etc.

Financials

Income Statement (Rs m)

Y/e Sep	FY22	FY23E	FY24E*	FY25E*
Net Revenues	1,61,378	1,90,235	2,08,384	2,40,098
YoY gr. (%)	22.3	17.9	9.5	15.2
Cost of Goods Sold	1,09,263	1,26,525	1,37,658	1,58,128
Gross Profit	52,115	63,710	70,726	81,969
Margin (%)	32.3	33.5	33.9	34.1
Employee Cost	18,057	20,640	21,672	24,730
Other Expenses	9,647	8,465	10,419	12,005
EBITDA	17,573	24,711	27,590	32,269
YoY gr. (%)	18.1	40.6	11.6	17.0
Margin (%)	10.9	13.0	13.2	13.4
Depreciation and Amortization	3,171	3,299	3,719	4,181
EBIT	14,402	21,413	23,871	28,088
Margin (%)	8.9	11.3	11.5	11.7
Net Interest	363	380	402	420
Other Income	3,078	4,185	4,793	5,882
Profit Before Tax	17,117	25,217	45,202	33,551
Margin (%)	10.6	13.3	21.7	14.0
Total Tax	4,498	6,556	7,122	8,455
Effective tax rate (%)	26.3	26.0	15.8	25.2
Profit after tax	12,619	18,661	38,080	25,096
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	12,619	18,661	21,140	25,096
YoY gr. (%)	22.5	47.9	13.3	18.7
Margin (%)	7.8	9.8	10.1	10.5
Extra Ord. Income / (Exp)	-	-	16,940	-
Reported PAT	12,619	18,661	38,080	25,096
YoY gr. (%)	22.5	47.9	104.1	(34.1)
Margin (%)	7.8	9.8	18.3	10.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,619	18,661	38,080	25,096
Equity Shares O/s (m)	356	356	356	356
EPS (Rs)	35.4	52.4	59.4	70.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Sep	FY22	FY23E	FY24E*	FY25E*
Non-Current Assets				
Gross Block	24,526	28,196	32,196	36,196
Tangibles	24,526	28,196	32,196	36,196
Intangibles	-	-	-	-
Acc: Dep / Amortization	11,453	14,752	18,471	22,651
Tangibles	11,453	14,752	18,471	22,651
Intangibles	-	-	-	-
Net fixed assets	13,073	13,444	13,725	13,545
Tangibles	13,073	13,444	13,725	13,545
Intangibles	-	-	-	-
Capital Work In Progress	18,513	18,513	18,513	19,513
Goodwill	-	-	-	-
Non-Current Investments	3,961	3,819	5,224	5,056
Net Deferred tax assets	975	975	975	975
Other Non-Current Assets	9,833	12,365	13,545	15,126
Current Assets				
Investments	-	-	-	-
Inventories	21,650	22,411	24,549	26,312
Trade receivables	39,194	46,386	50,811	56,571
Cash & Bank Balance	65,841	68,799	77,771	84,119
Other Current Assets	21,512	22,257	25,006	28,091
Total Assets	2,00,115	2,21,406	2,43,836	2,66,460
Equity				
Equity Share Capital	712	712	712	712
Other Equity	1,15,390	1,28,826	1,44,544	1,60,856
Total Network	1,16,102	1,29,538	1,45,256	1,61,568
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	40,428	45,865	49,670	54,598
Other current liabilities	44,484	46,903	49,810	51,194
Total Equity & Liabilities	2,00,115	2,21,406	2,43,836	2,66,460

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Sep	FY22	FY23E	FY24E*	FY25E*
PBT	20,817	25,217	28,262	33,551
Add. Depreciation	3,171	3,299	3,719	4,181
Add. Interest	363	380	402	420
Less Financial Other Income	3,078	4,185	4,793	5,882
Add. Other	(5,732)	-	-	-
Op. profit before WC changes	18,619	28,897	32,383	38,152
Net Changes-WC	(3,619)	(10,107)	(6,464)	(9,146)
Direct tax	(5,215)	(6,556)	(7,122)	(8,455)
Net cash from Op. activities	9,785	12,234	18,796	20,551
Capital expenditures	(1,313)	(3,670)	(4,000)	(5,000)
Interest / Dividend Income	2,255	-	-	-
Others	(1,295)	-	-	-
Net Cash from Invt. activities	(353)	(3,670)	(4,000)	(5,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	(25)	-	-	-
Dividend paid	(2,849)	(5,225)	(22,362)	(8,784)
Interest paid	(248)	(380)	(402)	(420)
Others	(800)	-	16,940	-
Net cash from Fin. activities	(3,922)	(5,605)	(5,824)	(9,204)
Net change in cash	5,510	2,958	8,972	6,347
Free Cash Flow	8,225	8,564	14,796	15,551

Source: Company Data, PL Research

Key Financial Metrics

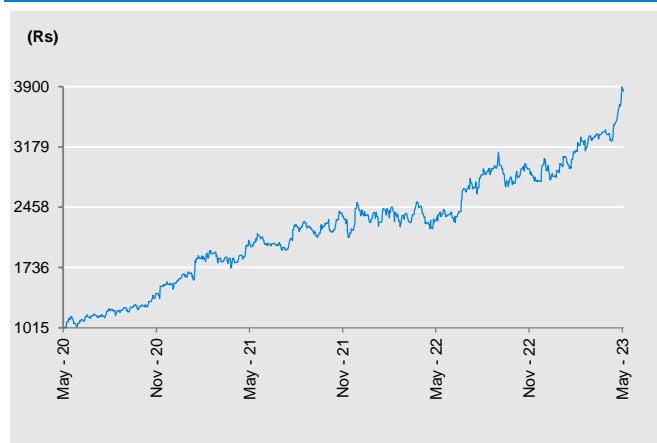
Y/e Sep	FY22	FY23E	FY24E*	FY25E*
Per Share(Rs)				
EPS	35.4	52.4	59.4	70.5
CEPS	44.4	61.7	69.8	82.2
BVPS	326.1	363.9	408.0	453.8
FCF	23.1	24.1	41.6	43.7
DPS	10.0	14.7	62.8	24.7
Return Ratio(%)				
RoCE	13.1	17.4	17.4	18.3
ROIC	24.2	29.3	33.7	30.3
RoE	11.5	15.2	15.4	16.4
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.5)	(0.5)	(0.5)
Net Working Capital (Days)	46	44	45	43
Valuation(x)				
PER	105.0	71.0	62.7	52.8
P/B	11.4	10.2	9.1	8.2
P/CEPS	83.9	60.4	53.3	45.3
EV/EBITDA	71.7	50.8	45.2	38.5
EV/Sales	7.8	6.6	6.0	5.2
Dividend Yield (%)	0.3	0.4	1.7	0.7

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Sep	Q3SY22	Q4SY22	Q1SY23	Q2SY23
Net Revenue	42,583	46,571	40,151	48,578
YoY gr. (%)	45.1	11.6	17.4	27.8
Raw Material Expenses	28,877	31,261	26,702	33,254
Gross Profit	13,706	15,310	13,449	15,324
Margin (%)	32.2	32.9	33.5	31.5
EBITDA	4,122	5,159	5,992	6,212
YoY gr. (%)	67.6	16.0	66.6	32.3
Margin (%)	9.7	11.1	14.9	12.8
Depreciation / Depletion	787	798	761	785
EBIT	3,335	4,361	5,231	5,427
Margin (%)	7.8	9.4	13.0	11.2
Net Interest	44	132	37	99
Other Income	787	1,028	1,017	1,166
Profit before Tax	4,078	5,257	6,211	6,494
Margin (%)	9.6	11.3	15.5	13.4
Total Tax	1,053	1,440	1,584	1,776
Effective tax rate (%)	25.8	27.4	25.5	27.3
Profit after Tax	3,025	3,817	4,627	4,718
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,025	3,817	4,627	4,718
YoY gr. (%)	117.8	20.7	86.8	43.1
Margin (%)	7.1	8.2	11.5	9.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,025	3,817	4,627	4,718
YoY gr. (%)	117.8	20.7	86.8	43.1
Margin (%)	7.1	8.2	11.5	9.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,025	3,817	4,627	4,718
Avg. Shares O/s (m)	356	356	356	356
EPS (Rs)	8.5	10.7	13.0	13.3

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-May-23	Accumulate	4,254	3,898
2	11-Apr-23	Accumulate	3,351	3,384
3	14-Feb-23	Accumulate	3,351	3,124
4	04-Jan-23	Accumulate	3,290	2,837
5	09-Dec-22	Accumulate	3,290	2,967
6	23-Nov-22	Accumulate	3,116	2,770
7	04-Oct-22	Accumulate	3,116	2,750
8	04-Aug-22	Accumulate	2,815	2,615
9	05-Jul-22	Accumulate	2,602	2,522
10	13-Jun-22	Accumulate	2,602	2,372

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	4,119	3,719
2	Apar Industries	BUY	3,832	3,056
3	Bharat Electronics	BUY	125	100
4	BHEL	Sell	36	71
5	Cummins India	Accumulate	1,708	1,587
6	Engineers India	BUY	85	74
7	GE T&D India	UR	-	128
8	Harsha Engineers International	BUY	440	414
9	Kalpataru Power Transmission	BUY	625	527
10	KEC International	Accumulate	559	514
11	Larsen & Toubro	BUY	2,615	2,364
12	Praj Industries	BUY	495	343
13	Siemens	Accumulate	4,254	3,898
14	Thermax	BUY	2,613	2,280
15	Triveni Turbine	Accumulate	416	398
16	Voltamp Transformers	Hold	3,056	2,905

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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