

December 23, 2023

Analyst Meet Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	4,359		4,241	
Sales (Rs. m)	2,17,674	2,44,992	2,08,996	2,40,047
% Chng.	4.2	2.1		
EBITDA (Rs. m)	28,820	32,927	27,671	32,262
% Chng.	4.2	2.1		
EPS (Rs.)	62.8	72.6	59.7	70.7
% Chng.	5.2	2.8		

Key Financials - Consolidated

Y/e Sep	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	1,61,378	1,95,538	2,17,674	2,44,992
EBITDA (Rs. m)	17,573	24,872	28,820	32,927
Margin (%)	10.9	12.7	13.2	13.4
PAT (Rs. m)	12,619	19,620	22,353	25,858
EPS (Rs.)	35.4	55.1	62.8	72.6
Gr. (%)	22.5	55.5	13.9	15.7
DPS (Rs.)	10.0	15.4	18.8	25.4
Yield (%)	0.3	0.4	0.5	0.6
RoE (%)	11.5	15.9	16.1	16.7
RoCE (%)	13.1	17.5	18.1	18.6
EV/Sales (x)	8.3	6.8	6.1	5.4
EV/EBITDA (x)	76.4	53.6	46.2	40.2
PE (x)	111.6	71.8	63.0	54.5
P/BV (x)	12.1	10.8	9.6	8.6

Key Data

SIEM.BO | SIEM IN

52-W High / Low	Rs.4,245 / Rs.2,774
Sensex / Nifty	71,107 / 21,349
Market Cap	Rs.1,409bn / \$ 16,941m
Shares Outstanding	356m
3M Avg. Daily Value	Rs.1325.25m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	7.93
Domestic Institution	7.63
Public & Others	9.43
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	11.5	7.2	38.3
Relative	3.5	(4.6)	18.3

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Strong domestic capex to drive long-term growth

- SY23 order backlog stood at Rs455.2bn with new orders jumping 138.8% YoY to Rs463.9bn (including Rs263.1bn 9000HP locomotive order).
- Products & services accounted for 69.4% of sales (services ~10-15%).

We recently attended Siemens India's (SIEM) analyst meet where management highlighted that India is a core focus for the parent, Siemens AG, given it is their fastest growing market. Strong economic indicators, stable inflation & interest rates and softening commodity prices augur well for a healthy capex environment in the country. Robust public capex on infrastructure (with 70-80% of the budgeted outlays being implemented) will be augmented by a take-off in private capex, which will fully kick-in when capacity utilization reaches 80-85% (vs 75-80% currently and 52-53% pre-covid). PLI schemes further benefit the company by enabling customers to incur additional capex. Key opportunities lie in areas of digitalization & automation, cybersecurity, data centers, railways, renewable energy, power transmission & distribution.

We remain positive on SIEM from a long-term perspective given 1) its strong and diversified presence across industries through focus on electrification, digitalization & automation, 2) product localization, 3) strong balance sheet, 4) healthy public & private capex and 5) focus on cost efficiencies. The stock is currently trading at a PE of 63.0x/54.5x SY24/25E. We maintain our 'Accumulate' rating on the stock with a TP of Rs4,359 (Rs4,241 earlier), valuing it at PE of 60x SY25E (same as earlier).

Strong demand outlook in India due to rising capex across verticals: The government has incurred huge spending on infrastructure development (railways, roads & highways, energy, etc.) with 70-80% of the Rs10trn FY24 capital outlay budget being implemented. Additionally, private capex is set to enter an upcycle as capacity utilization approaches 80%+ with fresh capacity investments expected across Pharma, Data Centers, Auto, Electronics, Metals, Intralogistics, Chemicals, Water and Cement. Furthermore, growing power requirement in the country (including renewable) is driving demand in T&D and transformers. Lastly, new opportunities are arising out of emerging verticals such as semiconductors, batteries and EVs. Although elections may cause delays in some large tenders, the overall demand environment in India is expected to remain robust across SIEM's business segments, especially in Energy, Smart Infra, and Mobility.

Opportunities in digitalization & automation continue to expand: In order to become a manufacturing hub, India cannot solely rely on labor arbitrage, whose value is diminishing as a result of digitalization. According to management, India's factory productivity stands at 70-75% (versus 99.9% in Germany), and this gap must be bridged by greater adoption of digitalization & automation to improve manufacturing productivity and attain energy & cost efficiencies. Moreover, the cybersecurity space has significant potential as cyber risks grow with increasing levels of automation. SIEM's Digital Industries and Smart Infra portfolios offer solutions in this space, and thus are expected to benefit in the long-run.

Segment Updates

Energy: Growing demand in power T&D to drive business

SY23 order inflow came in at Rs67.7bn (up 9% from Rs62.3bn in SY22) with significant orders in the Oil & gas, Transformers, and Transmission segments. Revenue was up 13% YoY to Rs59.9bn with robust growth across all major business areas owing to favorable conditions in key markets. EBITDA margin rose ~80bps YoY to 12.7%.

Exhibit 1: SIEM's extensive portfolio of offerings in the Energy segment

Grid Technologies, 66KV-800KV		Transformation of Industry	Gas Services	Project Management Hub
 High Voltage GIS ³⁾	 High Voltage AIS ⁴⁾	 Electrification, Automation & Digitalization solutions	 Services Gas Turbines	 Generation, Transmission & Industrial projects
 High Voltage Power transformers	 Industrial Steam Turbines	 Modification & Upgradation Steam Turbines		
 High Voltage Substations, AC & DC				

Source: Company, PL

Transmission & distribution (T&D) is a significant opportunity in India and globally, with increasing requirements for 400kV substations and HVDC 765-800kV substations. Integration of renewable energy is propelling expansion of the transmission network.

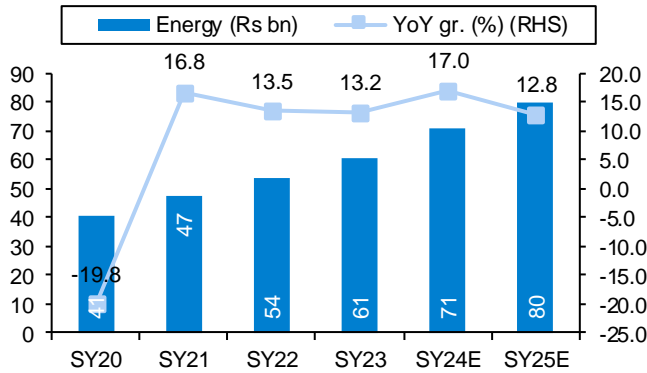
Moreover, **SIEM has announced capacity expansion in power transformers & switchgears** to address under-capacity for these products in both Global & Indian markets. Other areas of opportunity in the Energy business include waste heat recovery and modernization & upgradation of ageing large steam turbines.

SIEM has historically served the premium markets, so it **acquired C&S Electric in 2021 to cater to the mid-level market** where it's price point was too high. Additionally, the company was strong in the industrial low-voltage (LV) distribution market, while C&S was strong in the infrastructure LV market. C&S's growth has been better than expected with margins improving from pre-acquisition levels. The company will further grow when exports kick in in a big way. It has begun penetrating Asia Pacific, Middle East and South America – markets with huge potential.

SIEM's board has officially begun to explore the potential demerger of the Energy business (31% of SY23 sales). The demerger will likely be value accretive, given that the Energy business is largely project-oriented while remaining business

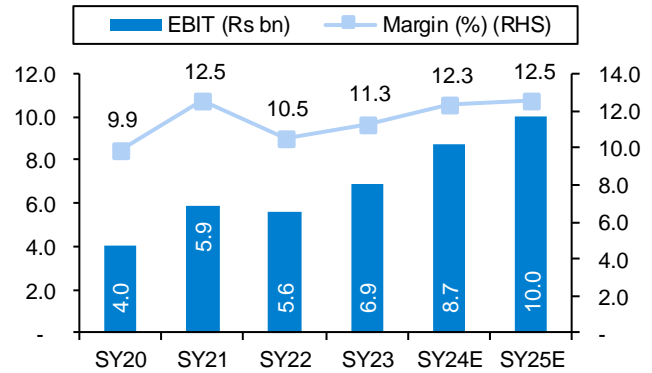
is product-based. Hence, the ex-Energy entity will likely witness an improvement in working capital plus some valuation catch-up with its product-oriented peers such as ABB India.

Exhibit 2: Revenue CAGR of 14.9% over SY23-25E



Source: Company, PL

Exhibit 3: Energy EBIT margin to reach 12.5% in SY25E

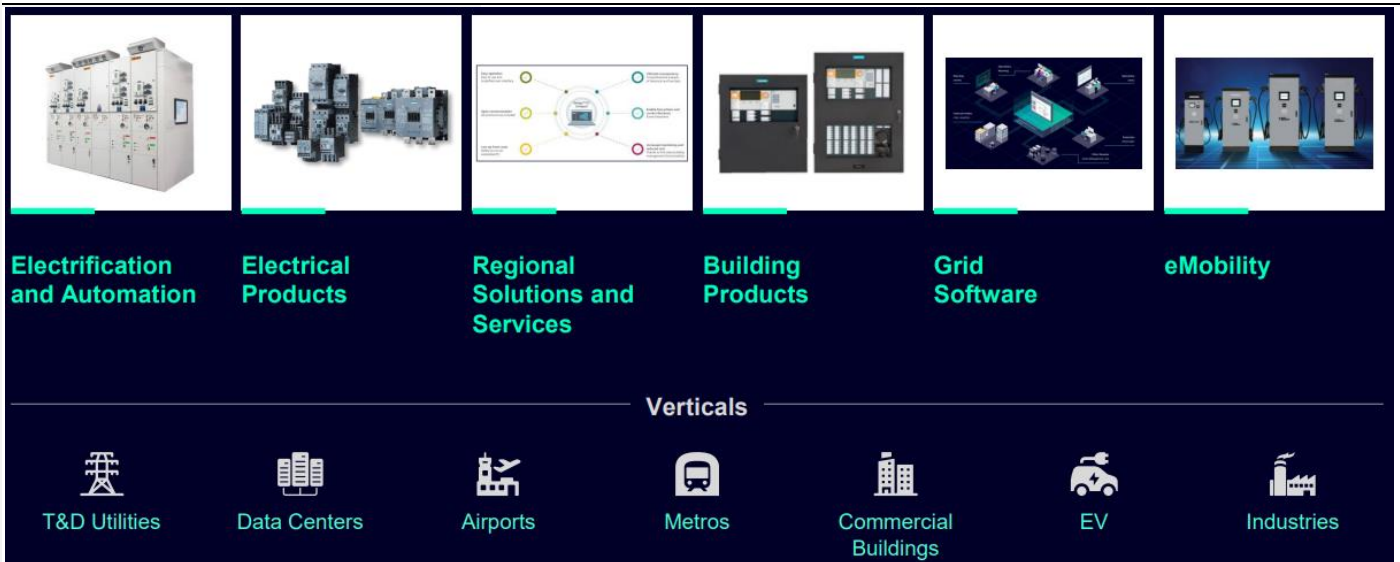


Source: Company, PL

Smart Infrastructure: Efficiency & sustainability solutions

SY23 order inflow came in at Rs65.6bn, up 25% from Rs52.6bn in SY22, driven by demand for electrification and electrical products. Revenue grew 20% YoY to Rs54.0bn on the back of stringent order book execution with EBITDA margin rising ~320bps YoY to 13.6% owing to better product mix and price extraction.

Exhibit 4: Smart Infrastructure solutions offered by SIEM to a wide range of end-use sectors

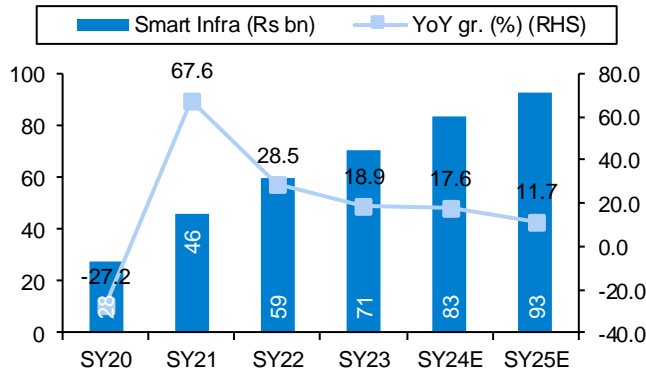


Source: Company, PL

Demand for SIEM's Smart Infrastructure offerings is expected to be driven by growing investments in data centres, commercial buildings, industrial infrastructure (metals, cement, oil & gas, e-mobility) and upgradation of distribution utilities. **Since data centers are one of the largest consumers of power**, there is a significant opportunity in reducing their operating costs plus increasing efficiency.

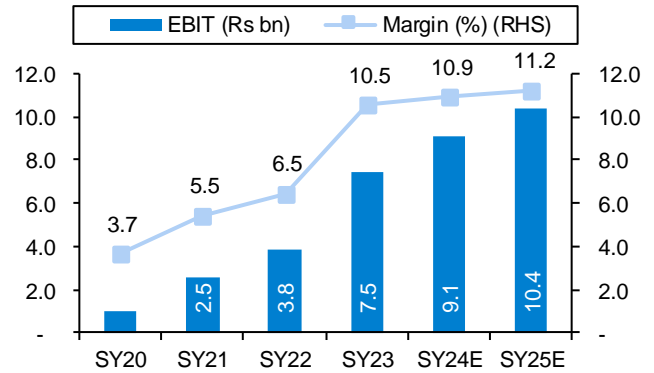
Furthermore, in order to address the growing global EV market, **SIEM has launched an eMobility vertical** via the ~Rs380mn acquisition of Mass-Tech Control's EV charger division.

Exhibit 5: Revenue CAGR of 14.6% over SY23-25E



Source: Company, PL

Exhibit 6: Smart Infra EBIT margin at 11.2% in SY25E



Source: Company, PL

Digital Industries: Enabling automation & digitalization

SY23 order inflow came in at Rs47.5bn, up 4% from Rs45.9bn in SY22, owing to normalized automation demand. Execution of a significant order backlog led to revenue growth of 24% YoY to Rs43.4bn. Higher volumes & tight cost control led to productivity gains, which translated to an EBITDA margin of 14.8% up ~370bps YoY.

Exhibit 7: SIEM's offerings via its Digital Industries segment

Factory Automation

Process Automation

Motion Control

Customer Services

Verticals

Automotive

Pharma

F&B

Chemicals

Machine building

Intralogistics

Water

EV

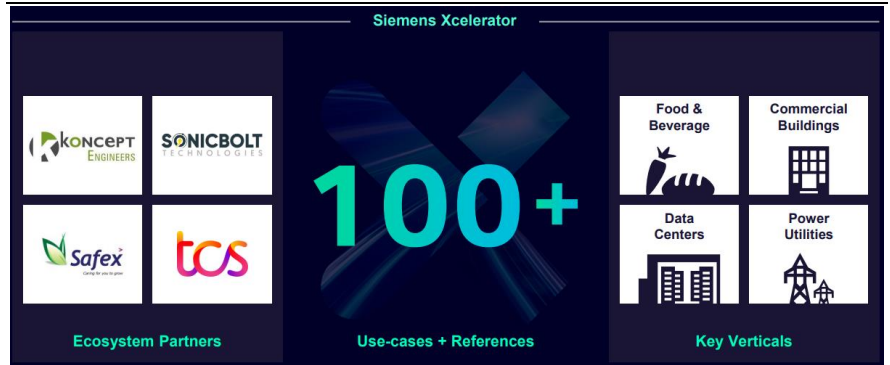
Data Center

Source: Company, PL

SIEM's digital transformation platform, Xcelerator, has helped move the company up the value chain as it aims to transition to a technology company. The platform has 100+ use cases including, among others, logistics support, enhancement of equipment effectiveness, increasing consistency of product quality, and reduction of energy consumption. These solutions can be scaled up

and applied across different industries with key verticals being food & beverage, commercial buildings, data centers and power utilities.

Exhibit 8: Xcelerator – SIEM's digital transformation platform

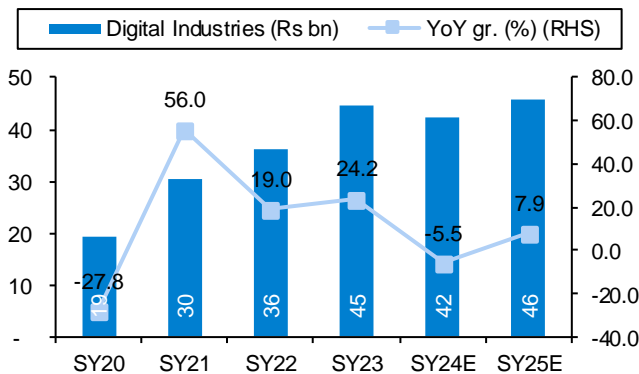


Source: Company, PL

Management highlighted that **the value of India's labour arbitrage advantage v/s U.S. & Europe has diminished** due to lower extent of digitalization in Indian manufacturing. India's factory productivity levels stand at 70-75% as compared to 99%+ in Germany, and this gap cannot be bridged simply by upskilling labour, but rather through greater digitalization. This will be a critical factor in making India a global manufacturing hub.

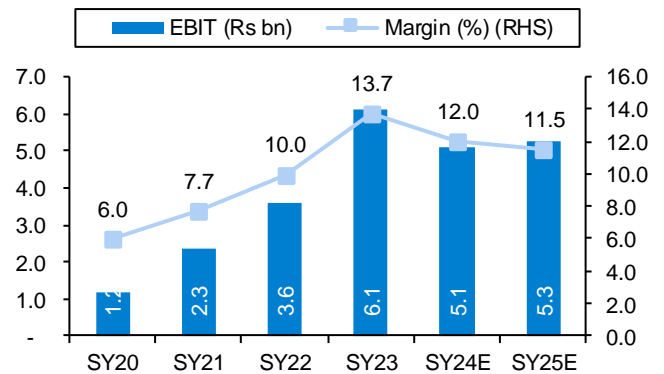
We believe that demand for digitalization & automation of manufacturing processes will continue to rise as companies seek to improve efficiency & productivity. Additionally, as digitalization & automation grows globally, cyber risk also increases. Thus, Cybersecurity solutions which SIEM offers through its customer services, is another big opportunity in this segment. A combination of domain, process & technological know-how will enable the company to capitalize on these opportunities.

Exhibit 9: Revenue CAGR of 1.0% over SY23-25E



Source: Company, PL

Exhibit 10: EBIT margin of 11.5% expected in DI in SY25E



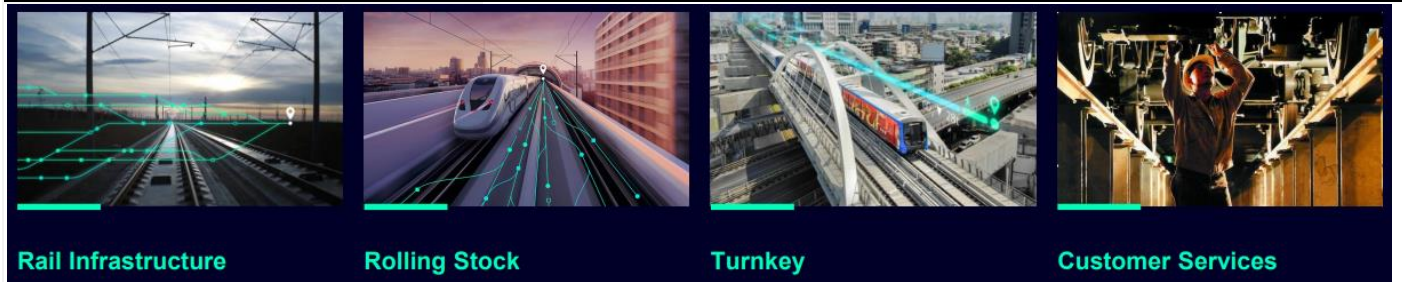
Source: Company, PL

Mobility: Boosted by healthy public capex on railways

SY23 order inflow came in at Rs283bn (vs Rs33.4bn), driven primarily by the large Rs263bn order for 9,000HP locomotives from Indian Railways. Robust execution drove healthy revenue growth of 53% YoY in SY23 to Rs19.7bn. However, costs to

ramp up production facilities coupled with higher R&D expenses impacted EBITDA during the year with EBITDA margin coming in at 3.5% (down ~320bps YoY).

Exhibit 11: SIEM expanded its railway offerings by adding rolling stock manufacturing & maintenance



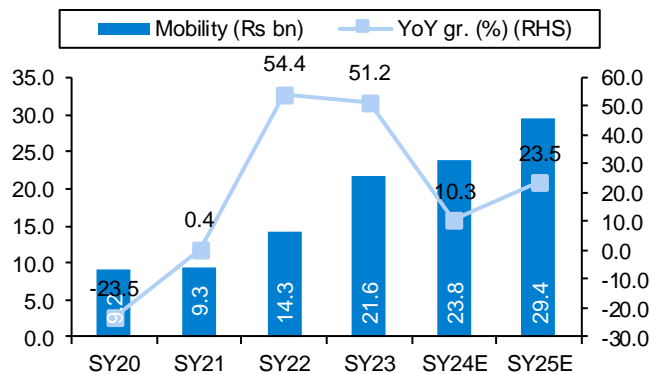
Source: Company, PL

While the India entity benefits from the parent’s R&D of ~EUR7bn per year, its **growing localization efforts in Mobility require R&D to adapt global products for local markets**. Management believes that this is a heavy capex business, but has historically been underinvested in. Therefore, SIEM will be scaling up its investments here in order to build its competencies in the growing rolling stock business, including additional component manufacturing at its Nashik plant.

Management is confident on its bidding price and margin levels in the 9000HP locomotive project, asserting that it will not be margin dilutive. Despite the sizeable nature of the order, this is not new business for SIEM as it has experience of doing this globally. Furthermore, digitalization plays a role in predictive maintenance to help in pricing & warranty negotiations with suppliers during the 35-year maintenance period.

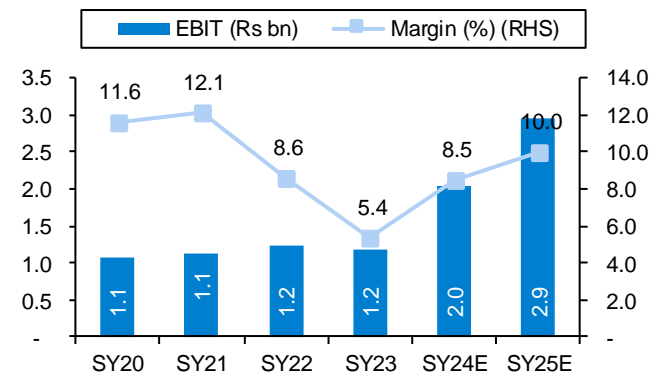
Strong government capex on railway infrastructure & rolling stock will drive demand for e-locomotives, propulsion systems, trainsets, bogies and large metro projects.

Exhibit 12: Revenue CAGR of 16.7% over SY23-25E



Source: Company, PL

Exhibit 13: Mobility EBIT margin to reach 10.0% by SY25E



Source: Company, PL

Financial Analysis

New orders up 138.8% YoY to Rs463.9bn in SY23

- Robust momentum in base business, i.e., short-cycle product business orders, primarily in Digital Industries and Smart Infrastructure (SI).
- Multiple large orders in Mobility, SI and Energy including the Rs263.1bn order for 9000 HP locomotives in Q2.
- Easing of supply chain led to normalization of advance ordering effect (i.e., channel partners & customers were ordering in advance to secure their supplies, especially in digital industries due supply chains issues).
- Order backlog stood at Rs455.2bn.

Revenue grew 21.3% YoY owing to strong execution

- Healthy order inflows in H1 led to strong topline in H2SY23.
- Very strong domestic market led to further expansion of domestic business to 84.6% of sales in SY23 (vs 82.2% in SY22).
- Business mix remained stable at 69%/31% products & services/projects. Services accounted for 10-15% of the mix.
- Private/public business mix has traditionally been 80%/20%, but with an increased focus on private clients, the mix shifted to 90%/10% in SY22. With a growing railways business, share of public business rose to ~14 in SY23 and is expected to return back to 20-25%+ eventually.

EBITDA margin came in at 12.7% in SY23

- Better price extraction in key segments, improved volume mix and easing commodity prices led to EBITDA margin improvement.
- Increase in discretionary spending (travel, professional services, etc.) was offset by higher productivity.
- As the company grows, other expenses such as on technology, licenses, tooling, travel, etc. will also be expected to rise.
- Excluding the effect of FX and commodity gains/losses, Adj. EBITDA margin was 12.4% in both SY22 and SY23.

Exhibit 14: Stable EBITDA margin excluding FX & commodity hedging impact

Rs mn	SY22	SY23	H2SY22	H2SY23
Revenue	1,45,881	1,77,007	81,014	97,039
Reported EBITDA	16,070	22,402	8,486	11,360
Margin (%)	11.0%	12.7%	10.5%	11.7%
FX gains/(losses)	(1,307)	207	(1,083)	(453)
Commodity gains/(losses)	(771)	308	(1,311)	(349)
Adj. EBITDA	18,148	21,887	10,880	12,162
Margin (%)	12.4%	12.4%	13.4%	12.5%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Sep	FY22	FY23	FY24E	FY25E
Net Revenues	1,61,378	1,95,538	2,17,674	2,44,992
YoY gr. (%)	22.3	21.2	11.3	12.6
Cost of Goods Sold	1,09,263	1,33,826	1,43,795	1,61,352
Gross Profit	52,115	61,712	73,879	83,640
Margin (%)	32.3	31.6	33.9	34.1
Employee Cost	18,057	20,130	22,638	25,234
Other Expenses	9,647	6,542	10,884	12,250
EBITDA	17,573	24,872	28,820	32,927
YoY gr. (%)	18.1	41.5	15.9	14.3
Margin (%)	10.9	12.7	13.2	13.4
Depreciation and Amortization	3,171	3,208	3,670	4,090
EBIT	14,402	21,664	25,150	28,837
Margin (%)	8.9	11.1	11.6	11.8
Net Interest	363	228	381	392
Other Income	3,078	4,962	5,115	6,125
Profit Before Tax	17,117	26,398	29,884	34,570
Margin (%)	10.6	13.5	13.7	14.1
Total Tax	4,498	6,778	7,531	8,712
Effective tax rate (%)	26.3	25.7	25.2	25.2
Profit after tax	12,619	19,620	22,353	25,858
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	12,619	19,620	22,353	25,858
YoY gr. (%)	22.5	55.5	13.9	15.7
Margin (%)	7.8	10.0	10.3	10.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	12,619	19,620	22,353	25,858
YoY gr. (%)	22.5	55.5	13.9	15.7
Margin (%)	7.8	10.0	10.3	10.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,619	19,620	22,353	25,858
Equity Shares O/s (m)	356	356	356	356
EPS (Rs)	35.4	55.1	62.8	72.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Sep	FY22	FY23	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	14,661	18,331	22,421
Tangibles	11,453	14,661	18,331	22,421
Intangibles	-	-	-	-
Net fixed assets	13,073	13,535	13,865	13,775
Tangibles	13,073	13,535	13,865	13,775
Intangibles	-	-	-	-
Capital Work In Progress	18,513	18,234	18,234	19,234
Goodwill	-	-	-	-
Non-Current Investments	3,961	5,818	5,455	5,158
Net Deferred tax assets	975	975	975	975
Other Non-Current Assets	9,833	10,428	15,673	17,149
Current Assets				
Investments	-	-	-	-
Inventories	21,650	25,052	25,644	26,848
Trade receivables	39,194	48,047	52,174	56,743
Cash & Bank Balance	65,841	74,613	75,773	83,985
Other Current Assets	21,512	20,030	26,121	28,664
Total Assets	2,00,115	2,20,012	2,48,284	2,70,053
Equity				
Equity Share Capital	712	712	712	712
Other Equity	1,15,390	1,30,159	1,45,806	1,62,614
Total Network	1,16,102	1,30,871	1,46,518	1,63,326
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	40,428	42,380	51,884	55,711
Other current liabilities	44,484	47,650	50,771	51,906
Total Equity & Liabilities	2,00,115	2,20,012	2,48,284	2,70,053

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Sep	FY22	FY23	FY24E	FY25E
PBT	20,817	26,397	29,884	34,570
Add. Depreciation	3,171	3,208	3,670	4,090
Add. Interest	363	228	381	392
Less Financial Other Income	3,078	4,962	5,115	6,125
Add. Other	(5,732)	-	-	-
Op. profit before WC changes	18,619	29,833	33,935	39,052
Net Changes-WC	(3,619)	(5,825)	(14,157)	(7,686)
Direct tax	(5,215)	(6,778)	(7,531)	(8,712)
Net cash from Op. activities	9,785	17,230	12,247	22,654
Capital expenditures	(1,313)	(3,391)	(4,000)	(5,000)
Interest / Dividend Income	2,255	-	-	-
Others	(1,295)	1	-	-
Net Cash from Inv. activities	(353)	(3,390)	(4,000)	(5,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	(25)	-	-	-
Dividend paid	(2,849)	(5,493)	(6,706)	(9,050)
Interest paid	(248)	(228)	(381)	(392)
Others	(800)	-	-	-
Net cash from Fin. activities	(3,922)	(5,721)	(7,087)	(9,442)
Net change in cash	5,510	8,118	1,160	8,212
Free Cash Flow	8,225	13,839	8,247	17,654

Source: Company Data, PL Research

Key Financial Metrics

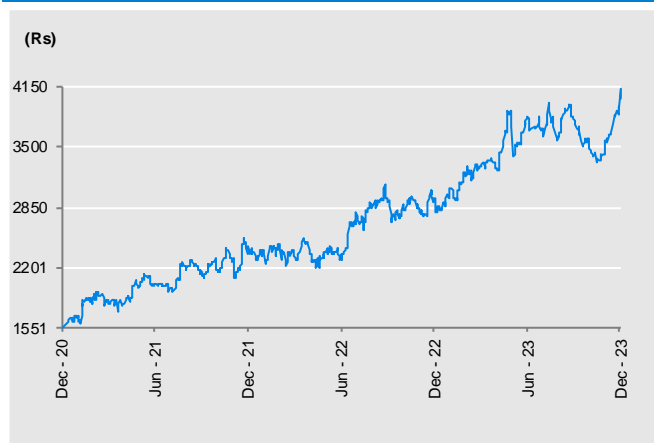
Y/e Sep	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	35.4	55.1	62.8	72.6
CEPS	44.4	64.1	73.1	84.1
BVPS	326.1	367.6	411.6	458.8
FCF	23.1	38.9	23.2	49.6
DPS	10.0	15.4	18.8	25.4
Return Ratio(%)				
RoCE	13.1	17.5	18.1	18.6
ROIC	24.2	32.9	29.9	30.4
RoE	11.5	15.9	16.1	16.7
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.6)	(0.5)	(0.5)
Net Working Capital (Days)	46	57	43	42
Valuation(x)				
PER	111.6	71.8	63.0	54.5
P/B	12.1	10.8	9.6	8.6
P/CEPS	89.2	61.7	54.1	47.0
EV/EBITDA	76.4	53.6	46.2	40.2
EV/Sales	8.3	6.8	6.1	5.4
Dividend Yield (%)	0.3	0.4	0.5	0.6

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Sep	Q1SY23	Q2SY23	Q3SY23	Q4SY23
Net Revenue	40,151	48,578	48,732	58,077
YoY gr. (%)	17.4	27.8	14.4	24.7
Raw Material Expenses	26,702	33,254	32,843	41,027
Gross Profit	13,449	15,324	15,889	17,050
Margin (%)	33.5	31.5	32.6	29.4
EBITDA	5,992	6,212	5,666	7,002
YoY gr. (%)	66.6	32.3	37.5	35.7
Margin (%)	14.9	12.8	11.6	12.1
Depreciation / Depletion	761	785	876	786
EBIT	5,231	5,427	4,790	6,216
Margin (%)	13.0	11.2	9.8	10.7
Net Interest	37	99	43	49
Other Income	1,017	1,166	1,324	1,455
Profit before Tax	6,211	6,494	6,071	7,622
Margin (%)	15.5	13.4	12.5	13.1
Total Tax	1,584	1,776	1,513	1,905
Effective tax rate (%)	25.5	27.3	24.9	25.0
Profit after Tax	4,627	4,718	4,558	5,717
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	4,627	4,718	4,558	5,717
YoY gr. (%)	86.8	43.1	50.7	49.8
Margin (%)	11.5	9.7	9.4	9.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,627	4,718	4,558	5,717
YoY gr. (%)	86.8	43.1	50.7	49.8
Margin (%)	11.5	9.7	9.4	9.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,627	4,718	4,558	5,717
Avg. Shares O/s (m)	356	356	356	356
EPS (Rs)	13.0	13.3	12.8	16.1

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	29-Nov-23	Accumulate	4,241	3,647
2	12-Oct-23	Accumulate	4,241	3,559
3	05-Oct-23	Accumulate	4,241	3,520
4	09-Aug-23	Accumulate	4,241	3,779
5	06-Jul-23	Accumulate	4,018	3,731
6	20-May-23	Accumulate	4,018	3,723
7	12-May-23	Accumulate	4,254	3,898
8	11-Apr-23	Accumulate	3,351	3,384
9	14-Feb-23	Accumulate	3,351	3,124
10	04-Jan-23	Accumulate	3,290	2,837

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	4,950	4,311
2	Apar Industries	Accumulate	5,630	5,165
3	Bharat Electronics	Accumulate	143	133
4	BHEL	Reduce	67	127
5	Carborundum Universal	BUY	1,408	1,076
6	Cummins India	Hold	1,811	1,767
7	Engineers India	BUY	166	145
8	GE T&D India	Hold	367	386
9	Grindwell Norton	BUY	2,604	2,159
10	Harsha Engineers International	Accumulate	415	393
11	Hindustan Aeronautics	BUY	2,266	2,059
12	Kalpataru Projects International	BUY	740	636
13	KEC International	Hold	645	615
14	Larsen & Toubro	BUY	3,437	2,929
15	Praj Industries	Accumulate	611	534
16	Siemens	Accumulate	4,241	3,647
17	Thermax	Hold	2,771	2,822
18	Triveni Turbine	Accumulate	450	392
19	Voltamp Transformers	Hold	5,079	4,989

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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