

May 15, 2024

Q2SY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	7,030		4,617	
Sales (Rs.m)	2,29,992	2,70,093	2,23,217	2,52,845
% Chng.	3.0	6.8		
EBITDA (Rs.m)	31,601	38,191	29,554	33,982
% Chng.	6.9	12.4		
EPS (Rs.)	70.9	87.3	66.2	77.0
% Chng.	7.1	13.4		

Key Financials - Consolidated

Y/e Sep	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	1,95,538	2,29,992	2,70,093	3,16,736
EBITDA (Rs. m)	24,872	31,601	38,191	46,053
Margin (%)	12.7	13.7	14.1	14.5
PAT (Rs. m)	19,620	25,231	31,075	37,511
EPS (Rs.)	55.1	70.9	87.3	105.4
Gr. (%)	55.5	28.6	23.2	20.7
DPS (Rs.)	10.0	21.3	26.2	31.6
Yield (%)	0.2	0.3	0.4	0.5
RoE (%)	15.9	17.8	18.9	19.7
RoCE (%)	17.3	19.8	21.0	22.1
EV/Sales (x)	11.7	9.9	8.4	7.1
EV/EBITDA (x)	92.3	72.4	59.5	48.9
PE (x)	120.9	94.0	76.3	63.2
P/BV (x)	18.1	15.5	13.5	11.6

Key Data

SIEM.BO | SIEM IN

52-W High / Low	Rs.6,702 / Rs.3,246
Sensex / Nifty	73,105 / 22,218
Market Cap	Rs.2,372bn / \$ 28,402m
Shares Outstanding	356m
3M Avg. Daily Value	Rs.1775.75m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	8.30
Domestic Institution	7.42
Public & Others	9.28
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	19.4	94.9	71.2
Relative	21.3	73.1	45.2

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Siemens (SIEM IN)

Rating: ACCUMULATE | CMP: Rs6,660 | TP: Rs7,030

Strong Q2; long-term outlook remains robust

Quick Pointers:

- Order inflow fell 9% YoY to Rs51.8bn due to deferment of some large orders along with slowdown in Digital Industries owing to inventory de-stocking.
- Company announced ~Rs5.2bn capex to expand GIS factory in Goa and set up metro train manufacturing facility in Aurangabad.

We revise our SY24/25E EPS estimates by +7.1%/13.4% factoring in robust intake & execution and much better profitability. Siemens (SIEM) reported healthy revenue growth of 18.4% YoY and EBITDA margin expansion of 249bps YoY. The board approved demerger of Energy business into a separate listed entity, which will unlock value in both entities by allowing each to focus on its respective market & core portfolio. Energy business will be driven by strong traction in power T&D; Mobility by robust rail & metro capex on signaling, electrification & rolling stock; Smart Infrastructure by investments in data centers, buildings, distribution utilities, & industrial infra (metals, cement, oil & gas, EVs); and Digital Industries by demand for digital adoption & transformation in manufacturing (metals, chemicals, pharma, etc.)

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) value-unlocking from demerger for Energy business. The stock is currently trading at a P/E of 94.0x/76.3x/63.2x SY24/25/26E. We roll forward to Mar-26E and maintain our 'Accumulate' rating with a TP of Rs7,030 (Rs4,572 earlier), valuing it at a P/E of 73x Mar-26E (60x SY25E earlier) given strong demand environment and improving margins.

Healthy sales growth & margin improvement across segments: Consolidated revenue grew 18.4% YoY to Rs57.5bn (PLe: Rs56.0bn) driven by growth across segments. Energy revenue rose 5.3% YoY to Rs16.4bn, Smart Infra grew 25.5% YoY to Rs21.7bn, Mobility grew 55.7% YoY to Rs7.6bn and Digital Industries grew 15.0% YoY to Rs10.4bn. Gross margin rose by 91bps YoY to 32.5% (PLe: 32.6%). EBITDA jumped 41.4% YoY to Rs8.8bn (PLe: Rs7.3bn) with EBITDA margin expanding by 249bps YoY to 15.3% (PLe: 13.0%) aided by a fall in employee costs (-3.5% YoY). Energy EBIT margin rose to 13.7% (vs 11.4% in Q2SY23); Smart Infra margin increased to 14.3% (vs 11.3% in Q2SY23); Mobility margin came in at 9.2% (vs 8.7% in Q2SY23); and Digital Industries margin jumped to 16.5% (vs 10.7% in Q2SY23). Excluding gain on sale of assets worth Rs1.9bn, Adj. PAT grew 40.1% YoY to Rs6.6bn (PLe: Rs6.0bn) on the back of a strong operating performance.

Order inflows came in at Rs51.8bn: Q2SY24 order inflow came in at Rs51.8bn (-9% YoY ex. 9000HP locomotive order in Q2SY23) as some large government projects were deferred and Digital Industries continued to witness demand normalization due to inventory destocking by channel partners (orders down 26% YoY in H1SY24). Order book (calculated) stands at ~Rs207bn (1.0x TTM revenue) excluding the ~Rs263bn locomotive order.

Exhibit 1: Healthy execution and better pricing & volumes drive strong operating performance

Y/e Sep (Rs mn)	Q2SY23	Q3SY23	Q4SY23	Q1SY24	Q2SY24	YoY gr. (%)	QoQ gr. (%)	H1SY24	H1SY23	YoY gr. (%)
Revenue	48,578	48,732	58,077	48,252	57,499	18.4	19.2	1,05,751	88,729	19.2
Total Revenues	48,578	48,732	58,077	48,252	57,499	18.4	19.2	1,05,751	88,729	19.2
Expenditure	42,366	43,066	51,075	42,291	48,717	15.0	15.2	91,008	76,525	18.9
as % of sales	87.2	88.4	87.9	87.6	84.7			86.1	86.2	
Consumption of RM	33,254	32,843	41,027	32,744	38,838	16.8	18.6	71,582	59,956	19.4
as % of sales	68.5	67.4	70.6	67.9	67.5			67.7	67.6	
Employee Cost	5,077	4,949	5,141	5,635	4,899	(3.5)	(13.1)	10,534	10,040	4.9
as % of sales	10.5	10.2	8.9	11.7	8.5			10.0	11.3	
Other expenditure	4,035	5,274	4,907	3,912	4,980	23.4	27.3	8,892	6,529	36.2
as % of sales	8.3	10.8	8.4	8.1	8.7			8.4	7.4	
EBITDA	6,212	5,666	7,002	5,961	8,782	41.4	47.3	14,743	12,204	20.8
Depreciation	785	876	786	785	800	1.9	1.9	1,585	1,546	2.5
EBIT	5,427	4,790	6,216	5,176	7,982	47.1	54.2	13,158	10,658	23.5
Other Income	1,166	1,324	1,455	1,641	1,287	10.4	(21.6)	2,928	2,183	34.1
Interest	99	43	49	34	313	216.2	820.6	347	136	155.1
PBT	6,494	6,071	7,622	6,783	8,956	37.9	32.0	15,739	12,705	23.9
Total Tax	1,776	1,513	1,905	1,726	2,851	60.5	65.2	4,577	3,360	36.2
Reported PAT	4,718	4,558	5,717	5,057	6,105	29.4	20.7	11,162	9,345	19.4
Adjusted PAT	4,718	4,558	5,717	5,057	6,105	29.4	20.7	11,162	9,345	19.4
Adjusted EPS	13.3	12.8	16.1	14.2	22.6	70.2	58.8	36.8	26.3	40.0
Margins (%)	Q2SY23	Q3SY23	Q4SY23	Q1SY24	Q2SY24	bps	bps	H1SY24	H1SY23	bps
Gross	31.5	32.6	29.4	32.1	32.5	91	31	32.3	32.4	(12)
EBITDA	12.8	11.6	12.1	12.4	15.3	249	292	13.9	13.8	19
EBIT	11.2	9.8	10.7	10.7	13.9	271	315	12.4	12.0	43
EBT	13.4	12.5	13.1	14.1	15.6	221	152	14.9	14.3	56
PAT	9.7	9.4	9.8	10.5	10.6	91	14	10.6	10.5	2
Effective Tax rate	27.3	24.9	25.0	25.4	31.8	449	639	29.1	26.4	263

Source: Company, PL

Exhibit 2: Healthy revenue growth and margin improvement seen across all segments

Y/e Sep (Rs mn)	Q2SY23	Q3SY23	Q4SY23	Q1SY24	Q2SY24	YoY gr. (%)	QoQ gr. (%)	H1SY24	H1SY23	YoY gr. (%)
Revenues										
Energy	15,554	15,181	18,467	11,454	16,375	5.3	43.0	27,829	27,155	2.5
Smart Infrastructure	17,249	17,206	21,092	18,523	21,655	25.5	16.9	40,178	32,446	23.8
Mobility	4,864	5,776	7,124	6,597	7,573	55.7	14.8	14,170	8,702	62.8
Digital Industries	9,058	8,924	9,459	10,379	10,419	15.0	0.4	20,798	16,847	23.5
Others	2,350	2,350	2,444	2,219	2,171	(7.6)	(2.2)	4,390	4,754	(7.6)
Less: Intersegment revenue	337	270	332	161	275	(18.4)	70.8	436	570	(23.5)
Total	(833)	(974)	(841)	(1,081)	(969)	16.3	(10.4)	(2,050)	(1,744)	17.5
EBIT										
Energy	1,766	1,585	2,191	1,251	2,243	27.0	79.3	3,494	3,097	12.8
Smart Infrastructure	1,947	1,737	2,439	1,964	3,097	59.1	57.7	5,061	3,275	54.5
Mobility	423	371	236	492	698	65.0	41.9	1,190	558	113.3
Digital Industries	969	1,081	1,088	1,313	1,721	77.6	31.1	3,034	3,061	-0.9
Portfolio Companies	308	-	259	142	214	(30.5)	50.7	356	643	-44.6
Others	14	16	2	14	10	(28.6)	(28.6)	24	24	0.0
EBIT Margins										
	Q2SY23	Q3SY23	Q4SY23	Q1SY24	Q2SY24	bps	bps	H1SY24	H1SY23	bps
Energy	11.4	10.4	11.9	10.9	13.7	234.4	25.4	12.6	11.4	10.1
Smart Infrastructure	11.3	10.1	11.6	10.6	14.3	301.4	34.9	12.6	10.1	24.8
Mobility	8.7	6.4	3.3	7.5	9.2	52.0	23.6	8.4	6.4	31.0
Digital Industries	10.7	12.1	11.5	12.7	16.5	582.0	30.6	14.6	18.2	-19.7
Portfolio Companies	13.1	-	10.6	6.4	9.9	(325.2)	54.0	8.1	13.5	-40.1
Others	4.2	5.9	0.6	8.7	3.6	(51.8)	(58.2)	5.5	4.2	30.7

Source: Company, PL

Conference Call Highlights

- Capacity utilization of manufacturing industry is steadily improving, with prospects of broad-based private capex rising.
- Q2SY24 EBITDA margin had a negative impact of FX & commodity; margin would have been 15.4% (vs 15.0% reported).
- **Energy:** H1SY24 order inflows grew ~34% YoY to Rs47.8bn led by growth in grid technologies and gas services. Order book stands at Rs97.4bn. There is major traction in power transmission, which is why Siemens announced Rs3.6bn capacity expansion of power transformers. This segment has access to all the technology of the global Energy business.
- **Board approved demerger of Energy business** into a separate listed entity, with listing expected in 2025. Given different underlying market drivers and capital allocation requirements, both companies will be able to focus on their specific strategies and core portfolios, thereby unlocking value in both entities.
- **Digital Industries:** H1SY24 order inflows fell ~26% YoY to Rs22.2bn. Continued inventory de-stocking of industrial automation products by channel partners as demand normalizes led to slow down in ordering. As manufacturing grows, so will demand for digitalization. Opportunities will be driven by PLI schemes (~Rs2trn outlay across 14 key manufacturing sectors), Industry 4.0 adoption, and high-end machine building & digitalization. Profitability has been robust and is expected to continue this way.
- **Smart Infrastructure:** H1SY24 order inflows grew ~6% YoY to Rs36.4bn. Better business mix led to improvement in margin. Going forward, opportunities lie in data centers (with capacity set to double in the next 3 years), commercial buildings, industrial infrastructure, growth in metals, cement, oil & gas, and e-Mobility, modernization of power distribution and integration of renewables.
- **Announced capex of Rs3.3bn to expand Gas Insulated Switchgear (GIS) factory** in Goa for GIS and Clean Air (Blue) GIS technologies that will cater to data centers, metro rail, oil & gas, steel, and T&D. While overall India market is huge for GIS, Blue GIS will be primarily for global customers as it is not affordable yet in India.
- **Mobility:** H1SY24 order inflows grew ~73% YoY (ex. locomotive order in H1SY23) to Rs5.2bn. Siemens has all the technology for signaling, electrification, and rolling stock (bogies, locomotives, metro, Vande Bharat). 9,000HP locomotive project execution has begun and revenue is starting to be booked. Margin used to be in double digits when the segment was focused on electrification & signaling, but was impacted as the company made heavy investments to capture the growing rolling stock market.
- **Announced capex of Rs1.9bn** to set up a metro train manufacturing facility at Aurangabad (in addition to existing bogie manufacturing facility) to cater to export markets (Australia, Middle East, Asia).
- **Total capex announced this year exceeds Rs10bn**, including the previously announced capacity expansions of Power Transformers factory in Kalwa and Vacuum Interrupter factory in Goa.

Financials

Income Statement (Rs m)

Y/e Sep	FY23	FY24E	FY25E	FY26E
Net Revenues	1,95,538	2,29,992	2,70,093	3,16,736
YoY gr. (%)	21.2	17.6	17.4	17.3
Cost of Goods Sold	1,33,826	1,54,003	1,79,504	2,08,919
Gross Profit	61,712	75,989	90,589	1,07,817
Margin (%)	31.6	33.0	33.5	34.0
Employee Cost	20,130	22,769	27,009	31,357
Other Expenses	8,284	10,120	11,614	14,253
EBITDA	24,872	31,601	38,191	46,053
YoY gr. (%)	41.5	27.1	20.9	20.6
Margin (%)	12.7	13.7	14.1	14.5
Depreciation and Amortization	3,208	3,228	3,399	3,665
EBIT	21,664	28,373	34,792	42,389
Margin (%)	11.1	12.3	12.9	13.4
Net Interest	228	276	270	317
Other Income	4,962	5,635	7,022	8,077
Profit Before Tax	26,398	33,731	41,544	50,149
Margin (%)	13.5	14.7	15.4	15.8
Total Tax	6,778	8,500	10,469	12,637
Effective tax rate (%)	25.7	25.2	25.2	25.2
Profit after tax	19,620	25,231	31,075	37,511
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	19,620	25,231	31,075	37,511
YoY gr. (%)	55.5	28.6	23.2	20.7
Margin (%)	10.0	11.0	11.5	11.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	19,620	25,231	31,075	37,511
YoY gr. (%)	55.5	28.6	23.2	20.7
Margin (%)	10.0	11.0	11.5	11.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	19,620	25,231	31,075	37,511
Equity Shares O/s (m)	356	356	356	356
EPS (Rs)	55.1	70.9	87.3	105.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Sep	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	24,902	28,902	32,902	36,902
Tangibles	24,902	28,902	32,902	36,902
Intangibles	-	-	-	-
Acc: Dep / Amortization	12,250	15,478	18,877	22,542
Tangibles	12,250	15,478	18,877	22,542
Intangibles	-	-	-	-
Net fixed assets	12,652	13,424	14,025	14,360
Tangibles	12,652	13,424	14,025	14,360
Intangibles	-	-	-	-
Capital Work In Progress	18,234	18,234	19,234	20,234
Goodwill	-	-	-	-
Non-Current Investments	5,818	6,913	8,116	9,515
Net Deferred tax assets	1,627	1,627	1,627	1,627
Other Non-Current Assets	10,428	16,099	18,907	22,171
Current Assets				
Investments	-	-	-	-
Inventories	25,052	27,095	30,339	34,711
Trade receivables	48,047	55,127	64,011	74,234
Cash & Bank Balance	76,507	85,980	99,269	1,19,777
Other Current Assets	20,030	27,599	31,601	37,058
Total Assets	2,21,023	2,57,945	2,94,279	3,42,354
Equity				
Equity Share Capital	712	712	712	712
Other Equity	1,30,159	1,51,829	1,75,335	2,03,523
Total Networth	1,30,871	1,52,541	1,76,047	2,04,235
Non-Current Liabilities				
Long Term borrowings	1,016	1,016	1,016	1,016
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	736	736	736	736
Trade payables	42,380	51,669	61,419	72,025
Other current liabilities	47,561	53,524	56,603	65,883
Total Equity & Liabilities	2,21,023	2,57,945	2,94,279	3,42,354

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Sep	FY23	FY24E	FY25E	FY26E
PBT	26,397	33,731	41,544	50,149
Add. Depreciation	3,208	3,228	3,399	3,665
Add. Interest	228	276	270	317
Less Financial Other Income	4,962	5,635	7,022	8,077
Add. Other	(3,429)	-	-	-
Op. profit before WC changes	26,404	37,236	45,214	54,130
Net Changes-WC	(4,371)	(11,426)	(8,616)	(6,345)
Direct tax	(8,033)	(8,500)	(10,469)	(12,637)
Net cash from Op. activities	14,000	17,310	26,129	35,148
Capital expenditures	(664)	(4,000)	(5,000)	(5,000)
Interest / Dividend Income	4,169	-	-	-
Others	(11,093)	-	-	-
Net Cash from Invt. activities	(7,588)	(4,000)	(5,000)	(5,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(3,561)	(7,569)	(9,323)	(11,253)
Interest paid	(45)	(276)	(270)	(317)
Others	-	4,008	-	-
Net cash from Fin. activities	(3,606)	(3,837)	(9,593)	(11,570)
Net change in cash	2,806	9,473	11,536	18,578
Free Cash Flow	11,980	13,310	21,129	30,148

Source: Company Data, PL Research

Key Financial Metrics

Y/e Sep	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	55.1	70.9	87.3	105.4
CEPS	64.1	79.9	96.8	115.7
BVPS	367.6	428.5	494.5	573.7
FCF	33.7	37.4	59.3	84.7
DPS	10.0	21.3	26.2	31.6
Return Ratio(%)				
RoCE	17.3	19.8	21.0	22.1
ROIC	33.0	36.9	39.0	44.0
RoE	15.9	17.8	18.9	19.7
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.6)	(0.6)	(0.6)
Net Working Capital (Days)	57	48	45	43
Valuation(x)				
PER	120.9	94.0	76.3	63.2
P/B	18.1	15.5	13.5	11.6
P/CEPS	103.9	83.3	68.8	57.6
EV/EBITDA	92.3	72.4	59.5	48.9
EV/Sales	11.7	9.9	8.4	7.1
Dividend Yield (%)	0.2	0.3	0.4	0.5

Source: Company Data, PL Research

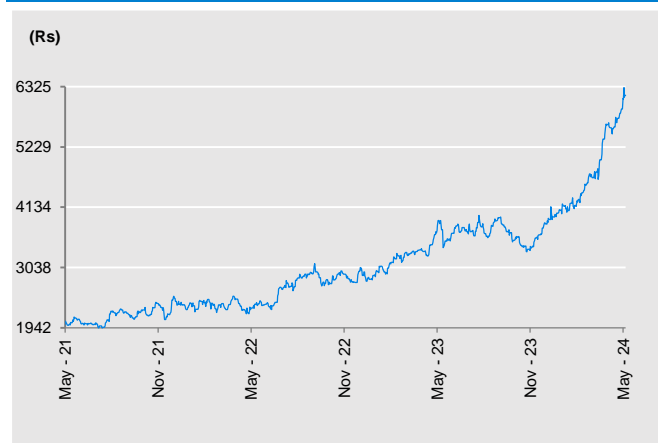
Quarterly Financials (Rs m)

Y/e Sep	Q3SY23	Q4SY23	Q1SY24	Q2SY24
Net Revenue	48,732	58,077	48,252	57,499
YoY gr. (%)	14.4	24.7	(0.7)	18.0
Raw Material Expenses	32,843	41,027	32,744	38,838
Gross Profit	15,889	17,050	15,508	18,661
Margin (%)	32.6	29.4	32.1	32.5
EBITDA	5,666	7,002	5,961	8,782
YoY gr. (%)	37.5	35.7	(4.0)	55.0
Margin (%)	11.6	12.1	12.4	15.3
Depreciation / Depletion	876	786	785	800
EBIT	4,790	6,216	5,176	7,982
Margin (%)	9.8	10.7	10.7	13.9
Net Interest	43	49	34	313
Other Income	1,324	1,455	1,641	1,287
Profit before Tax	6,071	7,622	6,783	8,956
Margin (%)	12.5	13.1	14.1	15.6
Total Tax	1,513	1,905	1,726	2,851
Effective tax rate (%)	24.9	25.0	25.4	31.8
Profit after Tax	4,558	5,717	5,057	6,105
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	4,558	5,717	5,057	6,105
YoY gr. (%)	50.7	49.8	7.2	33.9
Margin (%)	9.4	9.8	10.5	10.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,558	5,717	5,057	6,105
YoY gr. (%)	50.7	49.8	7.2	33.9
Margin (%)	9.4	9.8	10.5	10.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,558	5,717	5,057	6,105
Avg. Shares O/s (m)	356	356	356	356
EPS (Rs)	12.8	16.1	14.2	17.1

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-Apr-24	Accumulate	4,617	5,570
2	13-Feb-24	Accumulate	4,572	4,313
3	09-Jan-24	Accumulate	4,359	4,020
4	23-Dec-23	Accumulate	4,359	3,956
5	29-Nov-23	Accumulate	4,241	3,647
6	12-Oct-23	Accumulate	4,241	3,559
7	05-Oct-23	Accumulate	4,241	3,520
8	09-Aug-23	Accumulate	4,241	3,779
9	06-Jul-23	Accumulate	4,018	3,731
10	20-May-23	Accumulate	4,018	3,723

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	8,400	7,984
2	Apar Industries	Accumulate	6,564	7,153
3	BEML	BUY	3,345	3,465
4	Bharat Electronics	Hold	182	229
5	BHEL	UR	-	263
6	Carborundum Universal	Accumulate	1,631	1,516
7	Cummins India	Hold	2,480	3,001
8	Engineers India	Hold	257	223
9	GE T&D India	UR	-	930
10	Grindwell Norton	Accumulate	2,512	2,196
11	Harsha Engineers International	Accumulate	441	412
12	Hindustan Aeronautics	Hold	2,787	3,565
13	Kalpataru Projects International	Hold	1,211	1,188
14	KEC International	Hold	750	737
15	Larsen & Toubro	BUY	4,047	3,487
16	Praj Industries	BUY	636	520
17	Siemens	Accumulate	4,617	5,570
18	Thermax	Reduce	3,923	4,609
19	Triveni Turbine	BUY	532	555
20	Voltamp Transformers	Hold	10,018	9,985

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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