

SIEMENS

Portfolio aligned to changing capex

India Equity Research | Engineering and Capital Goods

Siemens' (SIEM) Q2FY19 EBITDA at 11.6% surpassed estimate riding traction in the mobility division. Key highlights: a) mobility division's Q2FY19/H1FY19 revenue jumped 63%/24% YoY driven by favourable project mix. Management expects 20% plus revenue growth to sustain in H2; and b) short-cycle business sustained growth momentum with order intake jumping 24% YoY. Management also highlighted acceleration in demand from customers for the digital portfolio. This, we believe, will gain further traction given the changing capex dynamics with companies focusing on debottlenecking and improving operational efficiencies. Maintain 'BUY' with TP of INR1,450 (45x September 2020E EPS). After the spin-off of the power & gas (PG) division by Siemens AG, whether Siemens India's PG business follows the slump sale or separate listing route needs to be monitored. SIEM remains our second pick (after L&T) in the industrial space (refer to, [DIGITALISATION: Opportunities amid disruption](#) for our detailed thesis).

Mobility segment drives performance; margin healthy

SIEM's revenue grew 8% led by 63%, 22% and 14% growth in mobility, PG and digital factories segments, respectively. While HVDC execution sustained, energy segment's revenue declined 8% YoY on a high base. Adjusting for the INR157mn compensation to employees in the process industries & drives segment and INR189mn forex gain, EBITDA margin stood at a healthy 11.5%.

Margin uptick and ROCE expansion potential

SIEM is emerging as a much more scalable business over the long term given its focus on digital solutions, smart products and building technologies. This, we believe, will gain further traction given the changing capex dynamics. Additionally, these verticals entail lower capital intensity, providing scope for ROCE improvement.

Outlook and valuation: Re-rating potential; maintain 'BUY'

Access to parent's robust global product portfolio and a favourable transformation in domestic industrial capex driven by demand for smart products/solutions will improve SIEM's returns over the years. We maintain 'BUY/SO'. At CMP, the stock is trading at 37x/34x FY19E/20E EPS.

Financials

(INR mn)

Year to September	Q2FY19	Q2FY18	% Chg	Q1FY19	% Chg	FY18	FY19E	FY20E
Net revenues	35,496	32,834	8.1	28,071	26.5	127,251	140,458	155,562
EBITDA	4,100	3,228	27.0	3,065	33.8	13,161	15,291	16,969
Adjusted Profit	2,803	2,197	27.6	2,280	22.9	8,939	10,551	11,573
Adjusted Diluted EPS	7.9	6.2	27.6	6.4	22.9	25.1	29.6	32.5
Diluted P/E (x)						43.4	36.8	33.5
EV/EBITDA (x)						26.7	23.0	20.7
ROAE (%)						11.2	12.2	12.3

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Low
Sector Relative to Market	Overweight

MARKET DATA (R: SIEM.BO, B: SIEM IN)

CMP	: INR 1,090
Target Price	: INR 1,450
52-week range (INR)	: 1,202 / 841
Share in issue (mn)	: 356.1
M cap (INR bn/USD mn)	: 388 / 7,136
Avg. Daily Vol.BSE/NSE('000)	: 493.1

SHARE HOLDING PATTERN (%)

	Current	Q3FY19	Q2FY19
Promoters *	75.0	75.0	75.0
MF's, FI's & BK's	11.2	11.2	9.6
FII's	2.7	2.7	4.6
Others	11.1	11.1	10.8
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Capital Goods Index
1 month	(8.3)	(2.6)	(3.3)
3 months	3.7	3.1	5.5
12 months	2.8	5.2	(6.6)

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Engineering and Capital Goods

Table 1: Segmental snapshot

Standalone	Q2FY19	Q2FY18	Y-o-Y growth (%)	H1FY19	H1FY18	Y-o-Y growth (%)
Revenues (INR mn)						
Power & Gas	4,513	3,699	22.0	8,022	6,681	20.1
Energy	13,711	14,842	(7.6)	24,229	25,207	(3.9)
Building technologies	1,330	1,245	6.8	2,401	2,135	12.5
Mobility	3,380	2,079	62.6	5,125	4,130	24.1
Digital factory	7,060	6,204	13.8	13,902	11,250	23.6
Process Industries	5,884	5,670	3.8	11,141	9,683	15.1
Others	340	445	(23.6)	576	715	(19.4)
Total revenue from operations (excluding inter segmental)	36,218	34,184	6.0	65,396	59,801	9.4
EBIT (INR mn)						
Power & Gas	734	441	66.4	1,664	980	69.8
Energy	1,466	1,242	18.0	2,898	2,341	23.8
Building technologies	68	111	(38.7)	155	176	(11.9)
Mobility	610	156	291.0	462	271	70.5
Digital factory	699	435	60.7	1,364	843	61.8
Process Industries	-56	249	(122.5)	-487	207	(335.3)
Others	8	104	(92.3)	6	174	(96.6)
Total	3,529	2,738	28.9	6,062	4,992	21.4
EBIT margins (%)						
Power & Gas	16.3	11.9		20.7	14.7	
Energy	10.7	8.4		12.0	9.3	
Building technologies	5.1	8.9		6.5	8.2	
Mobility	18.0	7.5		9.0	6.6	
Digital factory	9.9	7.0		9.8	7.5	
Process Industries	-1.0	4.4		-4.4	2.1	
Others	2.4	23.4		1.0	24.3	
Total	9.7	8.0		9.3	8.3	

Source: Company, Edelweiss research

Financial snapshot

(INR mn)

Year to September	Q2FY19	Q2FY18	% change	Q1FY19	% change	YTD19	FY19E	FY20E
Net revenues	35,496	32,834	8.1	28,071	26.5	63,567	140,458	155,562
Raw material	24,408	22,544	8.3	18,444	32.3	42,852	93,855	103,888
Staff costs	4,235	3,653	15.9	4,388	(3.5)	8,623	16,444	17,961
Other expenses	2,753	3,409	(19.2)	2,174	26.6	4,927	14,868	16,743
Total expenditure	31,396	29,606	6.0	25,006	25.6	56,402	125,167	138,593
EBITDA	4,100	3,228	27.0	3,065	33.8	7,165	15,291	16,969
Depreciation	571	490	16.5	532	7.3	1,103	2,177	2,285
EBIT	3,529	2,738	28.9	2,533	39.3	6,062	13,114	14,685
Interest	24	11	118.2	2	1,100.0	26	89	96
Other income	830	639	29.9	877	(5.4)	1,707	2,961	2,946
Add: Exceptional items								
Profit before tax	4,335	3,366	28.8	3,408	27.2	7,743	15,987	17,535
Tax	1,532	1,169	31.1	1,128	35.8	2,660	5,435	5,962
Reported net profit	2,803	2,197	27.6	2,280	22.9	5,083	10,551	11,573
Adjusted Profit	2,803	2,197	27.6	2,280	22.9	5,083	10,551	11,573
Equity capital(FV INR 2)	712	712		712		712	712	712
Diluted shares (mn)	356	356		356		356	356	356
Adjusted Diluted EPS	7.9	6.2	27.6	6.4	22.9	14.3	29.6	32.5
As % of net revenues								
Direct costs	68.8	68.7		65.7		67.4	66.8	66.8
Employee cost	11.9	11.1		15.6		13.6	11.7	11.5
Other operating expenses	11.3	15.1		11.8		7.8	10.6	10.8
EBITDA	11.6	9.8		10.9		11.3	10.9	10.9
Adjusted net profit	7.9	6.7		8.1		8.0	7.5	7.4
Tax rate	35.3	34.7		33.1		34.4	34.0	34.0

Company Description

Siemens India (SIEM) is a 75% subsidiary of Siemens AG, Germany, which has presence in more than 200 countries. SIEM offers diverse products and services solutions in power generation, transmission and distribution, automation and drives, industrial and digital solution. Siemens has 22 factories located across the country, eight Centres of Competence, 11 R&D centres and a nationwide sales and service network.

Investment Theme

Siemens (SIEM) is one of the most diversified industrial product/solutions companies in India with exposure to a wide range of industries including power, steel, cement, hydrocarbons, factories & building technologies, automation/digitalization, etc. Over the past three-four years, the company has simplified its business structure, apart from reducing operating margin volatility, which we believe is a significant departure from the past. Additionally, we expect it to significantly scale up in new areas like digital and factories & building technologies, which will boost growth and operating margin given the high growth potential and scope for value addition. The stock's re-rating will be a function of structural shift in revenue stream to more short-cycle/high-returns yielding businesses.

Key Risks

Slowdown in key infra verticals including T&D, transportation, hydrocarbon etc., could impact SIEM's overall business growth.

SIEM has reasonable exposure to export markets and hence a sustained slow down in key export markets, including the Middle East, could impact our growth estimates.

Parent's strategy has a direct bearing on SIEM's domestic business positioning. Hence, any significant decision w.r.t. business verticals could impact future growth potential and valuations.

Financial Statements

Key Assumptions

Year to September	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	7.1	6.7	7.1	7.1
Inflation (Avg)	4.5	3.6	3.7	4.0
Repo rate (exit rate)	6.3	6.0	6.3	5.8
USD/INR (Avg)	67.1	64.5	70.0	72.0
Company				
Order inflow growth (%)	26	(6)	10	10
Dep. (% gross block)	6.3	5.9	6.0	6.0

Income statement

(INR mn)

Year to September	FY17	FY18	FY19E	FY20E
Income from operations	110,148	127,251	140,458	155,562
Direct costs	73,504	85,864	93,855	103,888
Employee costs	13,926	14,487	16,444	17,961
Other Expenses	12,205	13,739	14,868	16,743
Total operating expenses	99,635	114,090	125,167	138,593
EBITDA	10,512	13,161	15,291	16,969
Depreciation	1,967	1,967	2,177	2,285
EBIT	8,546	11,194	13,114	14,685
Less: Interest Expense	77	82	89	96
Add: Other income	2,547	2,800	2,961	2,946
Profit Before Tax	16,691	13,912	15,987	17,535
Less: Provision for Tax	5,355	4,973	5,435	5,962
Add: Exceptional items	5,675	-	-	-
Reported Profit	11,336	8,939	10,551	11,573
Exceptional Items	4,302	-	-	-
Adjusted Profit	7,034	8,939	10,551	11,573
Shares o/s (mn)	356	356	356	356
Basic EPS (INR)	19.8	25.1	29.6	32.5
Diluted shares o/s (mn)	356	356	356	356
Adjusted Diluted EPS	19.8	25.1	29.6	32.5
Adjusted Cash EPS	27.8	29.8	35.7	38.9
Dividend per share (DPS)	8.5	7.0	8.0	9.0
Dividend Payout Ratio (%)	32.0	33.4	32.4	33.2

Common size metrics

Year to September	FY17	FY18	FY19E	FY20E
Operating expenses	90.5	89.7	89.1	89.1
EBITDA margins	9.5	10.3	10.9	10.9
Net Profit margins	6.4	7.0	7.5	7.4

Growth ratios (%)

Year to September	FY17	FY18	FY19E	FY20E
Revenues	1.9	15.5	10.4	10.8
EBITDA	3.0	25.2	16.2	11.0
Adjusted Profit	8.2	27.1	18.0	9.7

Engineering and Capital Goods

Balance sheet		(INR mn)			
As on 30th September	FY17	FY18	FY19E	FY20E	
Share capital	712	712	712	712	
Reserves & Surplus	76,335	82,342	89,477	97,208	
Shareholders' funds	77,047	83,054	90,189	97,920	
Long Term Liabilities	2,196	2,292	2,292	2,292	
Sources of funds	76,801	82,681	89,816	97,547	
Gross Block	32,346	34,483	36,283	38,083	
Net Block	13,344	13,514	13,137	12,652	
Capital work in progress	1,430	624	624	624	
Total Fixed Assets	14,774	14,138	13,761	13,276	
Non current investments	550	550	550	550	
Cash and Equivalents	40,713	36,457	36,010	36,744	
Inventories	10,165	11,389	12,857	14,231	
Sundry Debtors	34,725	37,250	41,297	45,873	
Loans & Advances	27,862	40,043	44,047	47,571	
Current Assets (ex cash)	72,752	88,682	98,201	107,675	
Sundry creditors	43,756	48,280	49,397	50,923	
Provisions	8,231	8,866	9,309	9,775	
Total Current Liab	51,987	57,146	58,706	60,698	
Net Curr Assets-ex cash	20,764	31,536	39,495	46,977	
Net Deferred tax	(2,442)	(2,665)	(2,665)	(2,665)	
Uses of funds	76,801	82,681	89,816	97,547	
BVPS (INR)	216.4	233.2	253.3	275.0	

Free cash flow		(INR mn)			
Year to September	FY17	FY18	FY19E	FY20E	
Reported Profit	11,336	8,939	10,551	11,573	
Add: Depreciation	1,967	1,967	2,177	2,285	
Interest (Net of Tax)	52	53	58	63	
Others	(9,561)	(2,177)	(58)	(63)	
Less: Changes in WC	(1,744)	8,361	7,959	7,481	
Operating cash flow	5,538	421	4,769	6,377	
Less: Capex	2,259	2,137	1,800	1,800	
Free Cash Flow	3,279	(1,716)	2,969	4,577	

Cash flow metrics					
Year to September	FY17	FY18	FY19E	FY20E	
Operating cash flow	5,538	421	4,769	6,377	
Financing cash flow	(2,624)	(3,054)	(3,416)	(3,843)	
Investing cash flow	13,141	(592)	(1,800)	(1,800)	
Net cash Flow	16,055	(3,225)	(447)	734	
Capex	3,289	(1,788)	(1,800)	(1,800)	
Dividend paid	(2,624)	(3,054)	(3,416)	(3,843)	

Profitability and efficiency ratios					
Year to September	FY17	FY18	FY19E	FY20E	
ROAE (%)	9.7	11.2	12.2	12.3	
ROACE (%)	15.3	17.5	18.6	18.7	
Inventory Days	50	46	47	48	
Debtors Days	109	103	102	102	
Payable Days	208	196	190	176	
Cash Conversion Cycle	(49)	(47)	(41)	(26)	
Current Ratio	2.2	2.2	2.3	2.4	
Interest Coverage Ratio	110.8	136.5	148.1	153.5	

Operating ratios					
Year to September	FY17	FY18	FY19E	FY20E	
Total Asset Turnover	1.5	1.6	1.6	1.7	
Fixed Asset Turnover	8.3	9.5	10.5	12.1	
Equity Turnover	1.5	1.6	1.6	1.7	

Valuation parameters					
Year to September	FY17	FY18	FY19E	FY20E	
Adj. Diluted EPS (INR)	19.8	25.1	29.6	32.5	
Y-o-Y growth (%)	8.2	27.1	18.0	9.7	
Adjusted Cash EPS (INR)	27.8	29.8	35.7	38.9	
Diluted P/E (x)	55.2	43.4	36.8	33.5	
P/B (x)	5.0	4.7	4.3	4.0	
EV / Sales (x)	3.2	2.8	2.5	2.3	
EV / EBITDA (x)	33.0	26.7	23.0	20.7	
Dividend Yield (%)	0.8	0.6	0.7	0.8	

Additional Data

Directors Data

Deepak S Parekh	Chairman	Sunil Mathur	Managing Director & CEO
Darius C Shroff	Director	Keki B. Dadiseth	Director
Yezdi H. Malegam	Director	Mehernosh B. Kapadia	Director
Josef Kaeser	Director	Cedrik Neike	Special Director
Mariel von Schumann	Director	Johannes Apitzsch	Director
Christian Rummel	Executive Director and CFO		

Auditors - S R B C & Co. LLP

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Siemens ag	71.7	Life insurance corp	5
Siemens metals tech	3.3	Reliance capital tru	1.95
Hdfc asset managemen	1.26	Vanguard group	0.86
Dsp blackrock invest	0.47	Norges bank	0.42
Uti asset management	0.26	Sundaram asset manag	0.2

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
ABB India	HOLD	SP	M	Bharat Forge	REDUCE	SP	M
Bharat Heavy Electricals	BUY	SP	M	CG Power and Industrial Solutions	HOLD	SP	M
Cummins India	HOLD	SP	M	Engineers India Ltd	REDUCE	SU	M
Greaves Cotton	HOLD	SP	M	Kalpataru Power	BUY	SO	M
KEC International	BUY	SP	M	Larsen & Toubro	BUY	SO	M
Praj Industries	HOLD	None	None	Ramkrishna Forgings	BUY	SP	M
Siemens	BUY	SO	L	Techno Electric & Engineering	BUY	SP	M
Thermax	REDUCE	SP	L	Triveni Turbine	BUY	None	None
VA Tech Wabag	BUY	None	None				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss
Ideas create, values protect



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Coverage group(s) of stocks by primary analyst(s): Engineering and Capital Goods

ABB India, Bharat Heavy Electricals, Bharat Forge, CG Power and Industrial Solutions, Engineers India Ltd, Greaves Cotton, KEC International, Cummins India, Kalpataru Power, Larsen & Toubro, Praj Industries, Ramkrishna Forgings, Siemens, Techno Electric & Engineering, Thermax, Triveni Turbine, VA Tech Wabag

Recent Research

Date	Company	Title	Price (INR)	Recos
10-May-19	Larsen & Toubro	Services compensates for weak infra ; <i>Result Update</i>	1,356	Buy
10-May-19	Kalpataru Power	Good times here to stay; <i>Result Update</i>	460	Buy
08-May-19	KEC International	Off target; revenue visibility comforting; <i>Result Update</i>	295	Buy

Distribution of Ratings / Market Cap

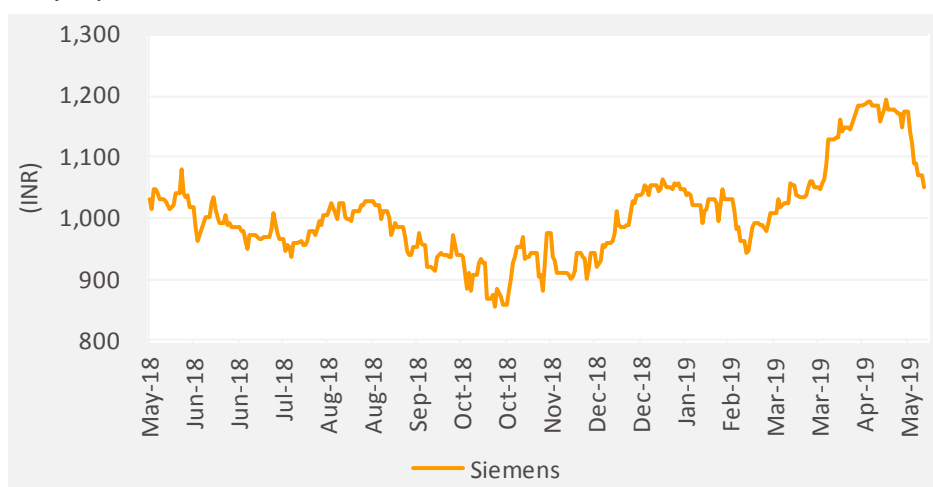
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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