

Estimate change	▲
TP change	▲
Rating change	↔

Bloomberg	SIEM IN
Equity Shares (m)	356
M.Cap.(INRb)/(USDb)	539.1 / 7.3
52-Week Range (INR)	1640 / 947
1, 6, 12 Rel. Per (%)	11/9/-5
12M Avg Val (INR M)	1904

Financials & Valuations (INR b)

Y/E Sep	2020	2021E	2022E
Sales	98.7	132.9	146.0
EBITDA	9.9	15.4	17.0
PAT	7.6	12.1	12.7
EBITDA (%)	10.0	11.6	11.6
EPS (INR)	21.3	33.9	35.8
EPS Gr. (%)	-32.6	59.1	5.7
BV/Sh. (INR)	266.1	295.1	322.3
Ratios			
Net D/E	-0.6	-0.4	-0.5
RoE (%)	8.0	11.5	11.1
RoCE (%)	8.4	12.2	11.5
Payout (%)	20.0	20.0	20.0
Valuations			
P/E (x)	71.2	44.7	42.3
P/BV (x)	5.7	5.1	4.7
EV/EBITDA (x)	48.8	32.1	28.4
Div Yield (%)	0.5	0.4	0.5
FCF Yield (%)	1.8	2.7	2.4

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	75.0	75.0	75.0
DII	10.4	10.1	11.9
FII	4.1	4.2	2.2
Others	10.5	10.7	10.9

FII Includes depository receipts

CMP: INR1,514
TP: INR1,420 (-6%)
Neutral

Strong operational performance, order inflows surprise

Favorable revenue mix and cost containment measures aid margins

- Siemens India (SIEM)'s 4QFY20 performance was above expectations, with a 7% beat on the topline and 54% on operating profit v/s our estimates. This clearly indicates faster-than-anticipated demand recovery. A favorable mix of the Services business, the execution of high-margin orders, and the sustenance of cost-cutting measures during the lockdown were some of the key parameters that led to higher operating profitability and margin expansion.
- With order inflows up 9% YoY in 4QFY20, management highlighted green shoots in end markets such as Pharmaceuticals, Food and Beverages, and Power T&D. Other verticals such as Cement (waste heat recovery), Buildings, Data Centers, and Refinery Infrastructure are also seeing ordering activity.
- Factoring in the strong 4QFY20 performance and encouraging pace of recovery, we increase our FY21E/FY22E EPS by 10%/3%. Maintain **Neutral**, with revised TP of INR1,420 (rollover to Sep'22E EPS; prior: INR1,210).

Strong beat on profitability

- **4QFY20:** Revenue declined 9% YoY to INR35.2b, 7% above our estimate. EBITDA was up a strong 6% YoY to INR4.5b, **54% above our estimate**. The EBITDA margin came in at 12.9% (up 180bp YoY), largely led by a 210bp YoY expansion in gross margins. PBT was down 13% YoY to INR4.5b on lower other income and higher depreciation. Effective tax rate stood at 25.2% (v/s 31.5% YoY). Adj. PAT was down 5% YoY to INR3.3b (44% above our estimate). **Order inflows were up 9% YoY to INR32.2b.**
- **FY20:** Revenue declined 24% YoY to INR98.7b. EBITDA declined 35% YoY to INR9.9b. The EBITDA margin stood at 10% (v/s 11.6% YoY). Adj. PAT was down 33% YoY to INR7.6b. **OCF stood at INR6.8b (v/s INR12.1b in FY19), and FCF stood at INR6.6b (v/s INR11.1b in FY19).** Cash balance improved further to INR55.5b (~60% of book value) in FY20 from INR49b in FY19.
- **Key segmental performances:** **(a) Energy** – Revenue was down 5% YoY to INR15.8b. The EBIT margin stood at 12.1% (up 140bp YoY). **(b) Smart Infrastructure** – Revenues were down 15% YoY to INR9.2b. The EBIT margin stood at 10.6% (up 110bp YoY). **(c) Mobility** – Revenues were down 16% YoY to INR3b. The EBIT margin stood at 13.8% (up 330bp YoY). **(d) Digital Industries** – Revenues were down 12% YoY to INR6.3b. The EBIT margin stood flat YoY at 7.9%. **(e) Portfolio of Companies** – Revenues were up 4% YoY to INR1.3b. The EBIT margin stood at 8.5% (v/s 1.4% YoY). Results have been restated post the sale of the Mechanical Drives business.

Key takeaways from management concall

- All 22 factories are now operational, with ~75% manpower deployed. ~85% of the project sites have been mobilized.
- **Interest in digitalization has increased tremendously for customers.** One of the main reasons is cash conservation, as companies looking to rationalize costs and sweat their existing assets (rather than opting for capex).

- The Automobile business is still subdued, with demand ~70% that of pre-COVID levels. Businesses such as Chemical, Pharma, Buildings, Data Center, and Refinery are seeing capex, while Premium Offices, Hotels, and Railways remain subdued.

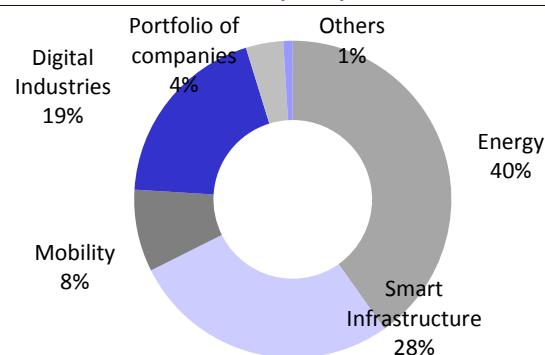
Valuation and view

- Factoring in the strong 4QFY20 performance and encouraging pace of recovery, we increase our FY21E/FY22E EPS by 10%/3%. Note that our estimates do not include contribution from the C&S Electric acquisition yet; however, they do reflect lower other income on account of the acquisition. Valuations capture C&S Electric on an acquisition cost basis.
- We like SIEM's product portfolio and diverse end market exposure. The company is poised to benefit over the longer term, led by the niche businesses of Industrial Automation and Digitalization.
- We Maintain **Neutral**, with revised TP of INR1,420 (rollover to Sep'22E EPS; prior: INR1,210). We value SIEM's current business at a target P/E multiple of 38x on Sep'22E EPS and the C&S Electric business at the acquisition cost. Note that our target multiple of 38x is lower than 45x ascribed to ABB – as one-third of SIEM's business is exposed to projects. ABB, however, is a pure-play products and services company.

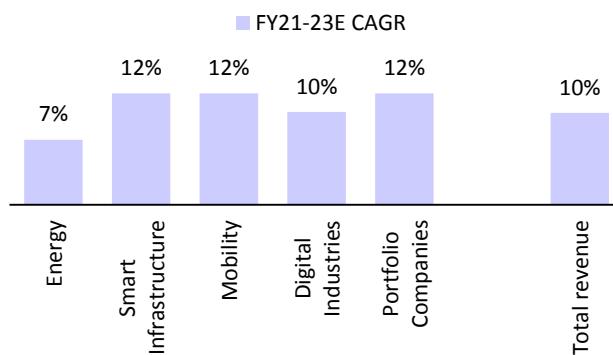
Y/E September	FY19								FY20		(INR m)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY19	FY20	MOSLe 4QE	Var %
Total Revenues	28,071	35,496	31,984	38,758	26,686	24,744	12,074	35,190	1,30,005	98,694	32,991	7%
Change (%)	15.5	8.1	4.1	-1.6	-4.9	-30.3	-62.2	-9.2	2.2	-24.1	-20.1	
EBITDA	3,065	4,257	3,537	4,283	3,365	2,018	-9	4,529	15,115	9,903	2,950	54%
Change (%)	12.5	31.9	17.0	2.3	9.8	-52.6	-100.3	5.7	14.8	-34.5	-27.3	
As % of Revenues	10.9	12.0	11.1	11.1	12.6	8.2	-0.1	12.9	11.6	10.0	8.9	
Depreciation	532	571	512	507	611	598	665	630	1,980	2,504	727	
Interest	2	24	2	86	77	109	48	58	112	292	63	
Other Income	877	830	825	1,414	855	808	822	614	3,940	3,099	941	
Extra-ordinary Items	0	-157	0	-190	0	193	-147	-55	-362	-9	0	
PBT	3,408	4,492	3,848	5,104	3,532	2,119	100	4,455	16,963	10,206	3,102	44%
Tax	1,128	1,532	1,367	1,608	905	604	-1	1,124	5,732	2,632	791	
Effective Tax Rate (%)	33.1	34.1	35.5	31.5	25.6	28.5	-1.0	25.2	33.8	25.8	25.5	
Reported PAT	2,280	2,803	2,481	3,306	2,627	1,708	-46	3,276	10,869	7,565	2,310	42%
Adjusted PAT	2,280	2,960	2,481	3,496	2,627	1,515	101	3,331	11,231	7,574	2,310	44%
Change (%)	19.7	34.7	21.4	25.2	15.2	-48.8	-95.9	-4.7	25.6	-32.6	-30.1	

Exhibit 1: Segmental snapshot according to the new classification

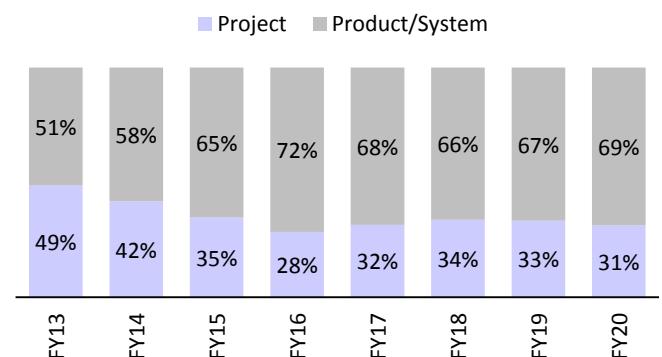
Revenues (INR m)	4QFY19	3QFY20	4QFY20	YoY (%)
Gas and Power	16,698	5,546	15,830	-5
Smart Infrastructure	10,808	3,092	9,208	-15
Mobility	3,588	970	3,010	-16
Digital Industries	7,189	1,819	6,328	-12
Portfolio of Companies	1,226	631	1,276	4
Others	312	270	297	-5
Gross Sales	39,821	12,328	35,949	-10
Elimination	1,063	254	759	
Net Sales	38,758	12,074	35,190	-9
EBIT (INR m)				
Gas and Power	1,786	232	1,921	7.6
Smart Infrastructure	1,022	-731	974	-4.7
Mobility	377	33	414	9.8
Digital Industries	561	-236	499	-11.1
Portfolio of Companies	17	-7	109	541.2
Others	13	35	-18	NA
Total EBIT	3,776	-674	3,899	3.3
EBIT Margin %				
Gas and Power	10.7	4.2	12.1	13.5
Smart Infrastructure	9.5	(23.6)	10.6	11.9
Mobility	10.5	3.4	13.8	30.9
Digital Industries	7.8	(13.0)	7.9	1.1
Portfolio of Companies	1.4	(1.1)	8.5	516.1
Others	4.2	13.0	(6.1)	NA
Total EBIT	9.7	(5.6)	11.1	13.7

Exhibit 2: Revenue breakdown (FY20)

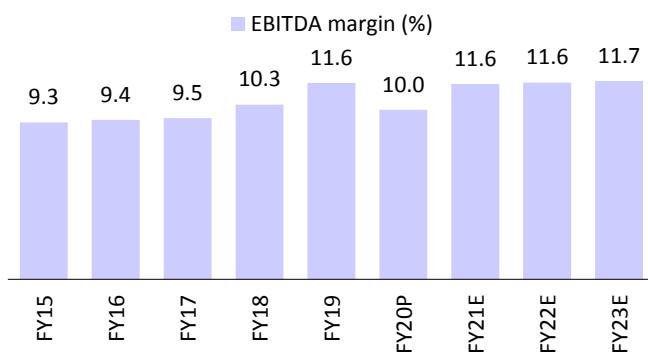
Source: MOFSL, Company

Exhibit 3: Expect revenue CAGR of 10% over FY21–23E

Source: MOFSL, Company

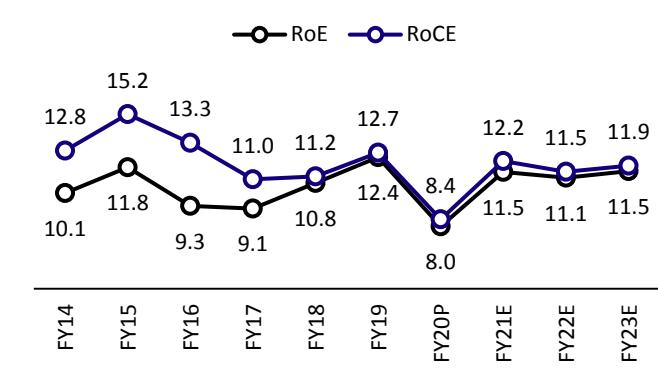
Exhibit 4: Share of product business on an uptrend

Source: MOFSL, Company

Exhibit 5: EBITDA margin to recover from FY21E

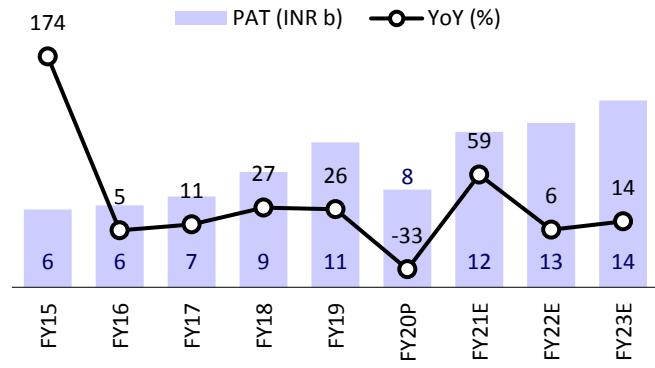
Source: MOFSL, Company

Exhibit 6: RoE/RoCE to continue uptrend from FY21E



Source: MOFSL, Company

Exhibit 7: Expect PAT at CAGR of 10% over FY21–23E



Source: MOFSL, Company

Exhibit 8: We increase our FY21/FY22E EPS est. by 10%/3%

Earnings Change (INR m)	Old		New		Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	1,32,900	1,46,010	1,32,900	1,46,010	0	0
EBITDA	14,930	16,506	15,370	17,008	3	3
EBITDA margin	11.2%	11.3%	11.6%	11.6%	0.3	0.3
Adj. PAT	10,968	12,391	12,052	12,741	10	3

Source: MOFSL, Company

Exhibit 9: Our target price stands at INR1,420/share

Valuation	Basis	Multiple	Sep'22 EPS	Value/share
Core business	Sep'22 PE	38.0	35.8	1,360
Acquisition of C&S	Transaction Value			60
Total			35.8	1,420

Source: MOFSL, Company



Key takeaways from management concall

Supply chain and operations update

- All 22 factories are now operational, with 75% manpower deployed. 85% of the project sites have been mobilized.
- Management is seeing order inflows – **they were up 8.7% YoY in 4QFY20. The order book stood at INR124b, with book-to-bill over 1x.**
- The supply chain has normalized now with material movement seamless across most of the country.
- Sectors such as Pharma, Food & Beverages, and Power T&D are seeing an uptick, with Siemens witnessing an increase in Automation and Remote Services.
- The company has a high level of productivity to execute orders in hand.
- **Services revenue contribution improved to 17.7% in FY20 from 11.6% in FY19 (a key positive for margins)**
- **Exports comprised 24.1% of sales in FY20 v/s 18.4% in FY19.**

Cost measures

- Reduced travel and nil occupancy at offices (lower electricity cost) have led to lower operational costs.
- Structural measures, such as increasing localization content and redesigning products for local markets, have been undertaken to improve margins.

Segmental highlights

- **Energy** – Improved factory utilization led to revenue recovery in Sep'20. The sales mix was favorable, leading to margin expansion.
- **Smart Infra** – Industrial demand was robust in 4QFY20, but still below pre-COVID levels.
- **Digital Industries** – Recovery was seen in revenue, but still below COVID levels, although the management has been getting good indications from clients.
- **Mobility** – Partial lockdown is still impacting some sites. The execution of high-margin orders has aided margin expansion.

End market-wise demand outlook

- Auto – The management does not expect too much of an uptick. There might be some increase, but not to the levels where companies would opt for capex.
- Pharma – The sector is doing well, and traction is expected to increase further, especially in contract manufacturing for exports.
- Cement – Ordering is witnessed in waste heat recovery projects.
- Buildings, Data Centers, and Refinery have seen a healthy uptick.
- The Commercial Buildings and Hotels segments have seen sharp decline during the pandemic.
- Railway – Electrification and signaling orders are coming in, while ordering in Metro Rails is a bit muted as of date.
- Transmission – Demand from TBCB projects is likely, after the postponement of orders previously.

Other key takeaways

- **Interest in digitalization has increased tremendously for customers** as they aim to conserve cash. Companies are trying to rationalize costs and avoid capex-related spending. Remote Diagnostics provides scope for the Services business, and augurs well for the Automation and Digitalization themes.
- Siemens is looking at new growth avenues via new technologies – decarbonization, high-speed travel, etc.
- The management is focused on profitable growth and had accordingly bid for good margin projects, the result of which is reflected in P&L margins. Siemens aims for further margin improvement.
- **Buildings:** Siemens is into various sub-segments such as Schools, Hotels, Hospitals, Residential, Commercial, Airports, etc. These sub-segments require services for energy efficiency, security, and fire safety.
- **C&S Electric:** The acquisition process is on-going and would aid Siemens in expanding its product offerings across LV Switchgear. The size of the LV Switchgear market is huge and untapped. The C&S acquisition is also intended for exports for geographies not attractive for traditional Siemens offerings (due to the price range). Hence, exports have a huge potential with this acquisition.
- **PLI scheme opportunities** – Siemens is not directly present in the end markets where this scheme has been announced, but provides products and solutions to all the companies in the end market. Hence, a pickup in domestic manufacturing would be a big positive for Siemens.

Valuation and view

- **Beneficiary of Digitalization and Automation trends:** While capex recovery continues to be elusive, we are seeing a strong trend in Digitalization and Automation as industries aim to improve operational efficiencies. Both SIEM and ABB are seeing robust momentum in their respective segments, along with margin expansion.
- **Rising share of Products and Services businesses augurs well for margins:** EBIT margins increased to 11.1% in 4QFY20 from 7.2% in FY15 (owing to COVID disruption, margins for FY20 are not comparable). With the rising share of the Products and Services businesses, margins are expected to further expand in FY21E after a slump in FY20E. The increase in EBIT is primarily attributable to (a) the rising share of the Products and Services businesses, and (b) the completion of early loss-making/low-margin projects and the execution of high-margin business.
- **Maintain Neutral:** Factoring in the strong 4QFY20 performance and encouraging pace of recovery, we increase our FY21E/FY22E EPS by 10%/3%. We like SIEM's product portfolio and diverse end market exposure. The company is poised to benefit over the longer term, led by the niche businesses of Industrial Automation and Digitalization. We maintain **Neutral**, with revised TP of INR1,420 (rollover to Sep'22E EPS; prior: INR1,210). In the past six months, the stock has run up by ~39% (v/s ~35% returns in Nifty). Hence, we perceive unfavorable risk-reward at this stage and await a better entry point in the stock. We value SIEM's current business at a target P/E multiple of 38x on Sep'22E EPS and the C&S Electric business at the acquisition cost. Note that our target multiple of 38x is lower than 45x ascribed to ABB – as one-third of SIEM's business is exposed to projects. ABB, however, is a pure-play products and services company.

Financials and valuations

Income Statement						(INR m)
Y/E September	2018	2019	2020	2021E	2022E	2023E
Total Revenues	1,27,251	1,30,005	98,694	1,32,900	1,46,010	1,60,471
Change (%)	15.5	2.2	-24.1	34.7	9.9	9.9
EBITDA	13,161	15,115	9,903	15,370	17,008	18,838
% Change	25.2	14.8	-34.5	55.2	10.7	10.8
% of Total Revenues	10.3	11.6	10.0	11.6	11.6	11.7
Depreciation	1,967	1,980	2,504	2,582	2,697	2,812
Interest	82	112	292	200	200	200
Other income	2,800	3,940	3,099	3,517	2,916	3,537
Exceptional items	0	-362	-9	1,172	0	0
PBT	13,912	16,601	10,197	17,277	17,027	19,363
Tax	4,973	5,732	2,632	4,054	4,286	4,874
Rate (%)	35.7	34.5	25.8	23.5	25.2	25.2
Reported PAT	8,939	10,869	7,565	13,223	12,741	14,489
Adjusted PAT	8,939	11,231	7,574	12,052	12,741	14,489
Change (%)	27.1	25.6	(32.6)	59.1	5.7	13.7
Balance Sheet						
Y/E September	2018	2019	2020	2021E	2022E	2023E
Share Capital	712	712	712	712	712	712
Reserves	82,342	89,724	94,028	1,04,359	1,14,042	1,25,054
Net Worth	83,054	90,436	94,740	1,05,071	1,14,754	1,25,766
Loans	0	0	0	0	0	0
Deferred Tax Liability	-2,665	-2,410	-2,481	-2,481	-2,481	-2,481
Capital Employed	80,389	88,026	92,259	1,02,590	1,12,273	1,23,285
Gross Fixed Assets	19,574	19,702	21,953	22,953	23,953	24,953
Less: Depreciation	6,060	7,798	10,302	12,884	15,581	18,393
Net Fixed Assets	13,514	11,904	11,651	10,069	8,372	6,560
Capital WIP	624	583	880	880	880	880
Investments	550	550	550	21,750	21,750	21,750
Curr. Assets	1,25,139	1,36,657	1,41,094	1,50,591	1,69,932	1,91,537
Inventory	11,389	10,950	11,064	14,899	16,368	17,989
Debtors	37,250	38,762	32,063	43,176	47,435	52,133
Cash & Bank Balance	36,457	48,913	55,517	46,029	55,824	66,898
Loans & Advances	8,733	8,513	7,782	7,782	7,782	7,782
Other Assets	31,310	29,519	34,668	38,705	42,523	46,735
Current Liab. & Prov.	59,438	61,668	61,916	80,700	88,660	97,441
Creditors	30,303	32,907	27,890	37,556	41,261	45,348
Other Liabilities	18,123	17,025	22,075	27,050	29,719	32,662
Provisions	11,012	11,736	11,951	16,093	17,681	19,432
Net Current Assets	65,701	74,989	79,178	69,891	81,271	94,095
Application of Funds	80,389	88,026	92,259	1,02,590	1,12,273	1,23,285

Financials and valuations

Ratios

Y/E September	2018	2019	2020	2021E	2022E	2023E
Basic (INR)						
Adj EPS	25.1	31.5	21.3	33.9	35.8	40.7
Cash EPS	30.6	37.1	28.3	41.1	43.4	48.6
Book Value	233.3	254.0	266.1	295.1	322.3	353.3
DPS	7.0	7.0	7.0	6.8	7.2	8.1
Payout (incl. Div. Tax.)	20.0	20.0	20.0	20.0	20.0	20.0
Valuation (x)						
P/E	60.3	48.0	71.2	44.7	42.3	37.2
Cash P/E	49.4	40.8	53.5	36.8	34.9	31.2
EV/EBITDA	38.2	32.4	48.8	32.1	28.4	25.1
EV/Sales	3.9	3.8	4.9	3.7	3.3	2.9
Price/Book Value	6.5	6.0	5.7	5.1	4.7	4.3
Dividend Yield (%)	0.5	0.5	0.5	0.4	0.5	0.5
Return Ratios (%)						
RoE	10.8	12.4	8.0	11.5	11.1	11.5
RoCE	11.2	12.7	8.4	12.2	11.5	11.9
RoIC	20.8	28.6	19.3	36.2	39.8	44.7
Turnover Ratios						
Debtors (Days)	107	109	119	119	119	119
Inventory (Days)	33	31	41	41	41	41
Creditors (Days)	87	92	103	103	103	103
Asset Turnover (x)	1.6	1.5	1.1	1.3	1.3	1.3
Leverage Ratio						
Net Debt/Equity (x)	(0.4)	(0.5)	(0.6)	(0.4)	(0.5)	(0.5)

Cash Flow Statement

(INR m)

Y/E March	2018	2019	2020	2021E	2022E	2023E
PBT before EO Items	13,912	16,963	10,206	16,106	17,027	19,363
Depreciation	1,967	1,980	2,504	2,582	2,697	2,812
Interest & other	4	112	292	200	200	200
Direct Taxes Paid	4,973	-6,130	-2,942	-4,054	-4,286	-4,874
(Inc)/Dec in WC	-10,676	4,442	-1,426	-201	-1,586	-1,750
Others	0	-1,893	1,185	1,172	0	0
CF from Operations	230	15,474	9,819	15,805	14,052	15,752
(Inc)/Dec in FA	-1,554	-141	-98	-1,000	-1,000	-1,000
Free Cash Flow	-1,324	15,333	9,721	14,805	13,052	14,752
(Pur)/Sale of Investments	0	235	730	-21,200	0	0
CF from Investments	-1,554	94	632	-22,200	-1,000	-1,000
(Inc)/Dec in Net worth	58	0	0	0	0	0
Interest Paid	54	107	842	200	200	200
Dividend Paid	2,990	3,005	3,005	2,892	3,058	3,477
CF from Fin. Activity	-2,986	-3,112	-3,847	-3,092	-3,258	-3,677
Inc/Dec of Cash	-4,310	12,456	6,604	-9,488	9,794	11,074
Add: Beginning Balance	40,713	36,457	48,913	55,517	46,029	55,824
Closing Balance	36,457	48,913	55,517	46,029	55,824	66,898

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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