

Capital Goods

Target price: Rs3,137

Earnings revision

(%)	FY23E	FY24E
Sales	↑ 1.4	↑ 2.6
EBITDA	↑ 3.4	↑ 4.1
PAT	↑ 3.2	↑ 3.9

Target price revision

Rs3,137 from Rs3,011

Shareholding pattern

	Mar '22	Jun '22	Sep '22
Promoters	75.0	75.0	75.0
Institutional investors	15.1	15.1	14.9
MFs and other	2.5	2.8	3.4
FI/ Banks	0.0	0.0	0.0
Insurance Co.	6.9	6.8	5.5
FII	5.7	5.5	6.0
Others	9.9	9.9	10.1

Source: NSE

ESG disclosure score

Year	2020	2021	Chg
ESG score	42.7	42.7	0.0
Environment	16.8	16.8	0.0
Social	27.5	27.5	0.0
Governance	83.6	83.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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Siemens Ltd

FY22 analyst call – key takeaways

In its FY22 annual analyst meet, Siemens indicated that ordering momentum is strong across business segments led by both public and private capex. Company continues to increase localisation, which may further expand margins. The digital solutions business is witnessing growth on the back of increasing focus on customer productivity and energy efficiency. Domestic transmission tendering is likely to see pick-up with government plans to spend Rs2.44trn for evacuation of 500GW renewable energy by CY30. Further, industrial decarbonisation-led capex – mainly on waste heat recovery, biomass, etc. – is most likely to drive growth in Siemens' energy business. FY22 total order inflow was up 43% YoY to Rs194bn driven by increased number of large-sized orders. We expect the momentum to continue given government capex on infrastructure and private capex on key verticals such as semiconductors, data centres and EV. In Mobility business, SIEM is L1 in manufacturing and maintenance order for 9,000HP locomotives, and we expect noticeable contribution to start coming FY25E onwards. Greater demand for automation and digitisation augurs well for the company's strong digital offerings. We have marginally tweaked our estimates and maintain our ADD rating on the stock due to its consistent performance and favourable outlook on incremental capex. We increase our SoTP-based target price to Rs3,137 (earlier: Rs3,011).

- ▶ **Mobility segment to see strong growth:** Siemens has emerged L1 for a 9,000HP locomotives project. These locomotives will be supplied from Dahod, Gujarat. Given the higher Budget allocation to railways for past two consecutive years, management is bullish on segmental growth for the coming years as well. Hence, it is expanding its mobility portfolio by developing capabilities locally. Company has also expanded its bogey manufacturing capacity at the Aurangabad factory and component manufacturing capacity at its Nashik factory.
- ▶ **FY22 reported margins were impacted due to forex losses:** In FY22, EBITDA margin contracted ~60bps to 10.8%. Segment-wise, energy / mobility margins shrank 200bps / 420 bps YoY to 10.5% / 5.6%, respectively, due to cost escalations and semiconductor-related delays. Digital industries / 'smart' infra witnessed margin expansions of 230bps / 80bps to 10% / 8.2% respectively, supported by pass-through of costs to customers. Forex & Commodity losses during the year stood at ~2.1bn.
- ▶ **Maintain ADD:** Government impetus to infrastructure spend continues to translate into strong capital expenditure in the country, followed by investments in 'smart' and green infrastructure, electrification, decarbonisation technologies, automation and digitisation. We believe Siemens is in a strong position to leverage these growth opportunities given its capabilities across verticals. Besides the various PLI schemes, ESG-related capex announced for multiple industries lend a fillip to private capex.

Market Cap	Rs1,057bn/US\$12.9bn	Year to Sept	FY21	FY22	FY23E	FY24E
Reuters/Bloomberg	SIEM.BO/SIEM IN	Revenue (Rs mn)	1,25,224	1,48,315	174,870	204,952
Shares Outstanding (mn)	356.1	Adj. NI (Rs mn)	10,440	12,497	16,202	19,673
52-week Range (Rs)	3,137/2,150	DEPS (Rs)	29.3	35.1	45.5	55.2
Free Float (%)	25.0	% Chg YoY	37.8	19.7	29.6	21.4
FII (%)	6.0	P/E (x)	95.6	79.8	65.2	53.7
Daily Volume (US\$/'000)	13,267	CEPS (Rs)	35.6	41.0	52.0	62.4
Absolute Return 3m (%)	1.4	EV/E (x)	66.3	58.5	47.6	38.8
Absolute Return 12m (%)	30.6	Dividend Yield	0.3	0.4	0.3	0.3
Sensex Return 3m (%)	4.2	RoCE (%)	10.7	11.6	13.5	14.6
Sensex Return 12m (%)	7.1	RoE (%)	10.5	11.4	13.3	14.4

Valuation and outlook

We use the SoTP valuation methodology for Siemens. We assign P/E multiples to FY24E core PAT of various business segments and add back the cash. We value: 1) energy segment at 50x FY24E core earnings (given good growth prospects in high-margin steam services segment and captive/cogen-related domestic orders); 2) 'smart' infrastructure at 75x (given improved domestic market environment – stable growth visibility in domestic market and market leadership with healthy RoEs); 3) mobility at 50x (in view of better growth prospects from enhanced metro-related ordering); 4) digital industries at 70x (given Siemens' leadership in high-growth discrete and factory automation); 5) others at 15x; and 6) C&S Electric business at 20x. We add back cash of Rs71bn.

We remain positive on the company's long-term prospects and maintain our **ADD** rating on the stock with a revised SoTP-based target price of Rs3,137 (earlier: Rs3,011) per share.

Key risks: Slowdown in capex spend due to global headwinds; higher than expected inflationary pressures.

Table 1: Valuation summary

Segment	FY24E Core PAT (Rs mn)	Multiple (x)	Value (Rs bn)	Value per Share
Energy	6,201	50	310	871
'Smart' Infrastructure	4,436	75	333	934
Mobility	1,469	50	73	206
Digital Industries	4,549	70	318	894
Others	77	15	1	3
C&S Electric Limited	1,182	20	24	66
Cash			71	162
Total			1,131	3,137

Source: I-Sec research

Table 2: Changes in estimates

Rs mn	FY23E			FY24E		
	Earlier	Revised	Change (%)	Earlier	Revised	Change (%)
Revenue	1,72,431	1,74,870	1.4	1,99,671	2,04,952	2.6
EBIDTA	20,237	20,922	3.4	24,385	25,379	4.1
PAT	15,695	16,202	3.2	18,936	19,673	3.9

Source: I-Sec research

Table 3: Segment-wise revenue estimates

September ending (Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E
Gas and Power	51,736	40,529	47,341	53,710	62,019	70,702
YoY Growth (%)	7.2	-21.7	16.8	13.5	15.5	14.0
'Smart' Infrastructure	37,387	27,635	40,515	47,792	55,439	63,755
YoY Growth (%)	-1.5	-26.1	46.6	18.0	16.0	15.0
Mobility	11,203	8,443	8,282	12,919	16,149	20,186
YoY Growth (%)	14.2	-24.6	-1.9	56.0	25.0	25.0
Digital Industries	26,874	19,415	30,293	36,055	43,987	53,664
YoY Growth (%)	13.4	-27.8	56.0	19.0	22.0	22.0
Total Income from operations	1,30,005	98,694	1,29,631	1,48,315	1,74,870	2,04,952
YoY Growth (%)	2.2	-24.1	31.3	18.4	17.9	17.2

Source: Company data, I-Sec research

Concall highlights

- FY22 witnessed continued public and private capex spends. Public spends were largely towards building roads, bridges, metros, airports, ports, railways, etc. Private spends were primarily driven by PLI announcements by the government across multiple segments.
- Despite strong order inflow, FY22 revenues were impacted by supply-chain challenges primarily outside of India largely due to semiconductor availability challenges and delays in shipments.
- In FY23, company will continue to focus on localisation of its products.
- Digitalisation within the industry has seen major growth during FY22. The need for energy efficiency solutions and increased productivity led to the growth. The industrial digital solutions market for Siemens has thus grown.
- Within the energy space, FY22 witnessed limited conventional generation addition. Transmission did see an upgrade though majority of TBCB projects got pushed out to FY23. Investment in transmission was largely led by the private sector. Within distribution, bulk of the investment was done by states and discoms.
- Growth in infrastructure investment was led by a boom in the data centre business in India. Large number of global companies are setting up their data centres in the country. Commercial buildings are also witnessing an uptick. FY22 was the second year in a row where Indian Railways witnessed an increase in their capex both on the infrastructure and rolling stock side.
- Automotive industry has not yet bounced back to pre-covid levels. Overall in the industry, there has been an increase in volumes as demand has grown; however, capex continues to be subdued.
- E-mobility, particularly commercial vehicles like e-buses, witnessed growth and management expects the growth to continue.
- Food and beverage industry was slow in terms of capacity expansion; however, it witnessed increased demand for improving energy efficiency.
- Intralogistics has strongly picked up, and management expects this to continue both in India and globally.
- Management expects geopolitical turmoil, supply-chain challenges, high inflation and interest rate rise to continue. However, it does not expect these headwinds to hamper capacity expansion activities in the country.

Energy business

- Order backlog grew 22% in FY22 to Rs62.3bn, led by i) growth in transmission network capacity mainly from private sector spends; ii) increasing demand for industrial decarbonisation solutions like waste heat recovery, biomass, modernisation and upgradation of systems. Mid-sized industries – such as distilleries, sugar, cement and fertiliser plants – are looking at ways to recycle the heat, driving demand for waste heat recovery solutions.

- As renewable generation capacity is getting added to the grid, the need for 'flexibilisation' solutions will increase.

'Smart' infra

- Order backlog grew 30% in FY22 to Rs52.6bn, led by i) high growth in data centres, 'smart' metering projects, e-mobility and digital buildings; ii) government focus on infrastructure, particularly in railways, airports, metros and discom privatisation.
- Import of components from other factories of Siemens across the globe led to increased costs and logistical delays, particularly in GIS and automation-related products. Management expects these issues to ease to some extent, but continue in FY23.

Digital industries

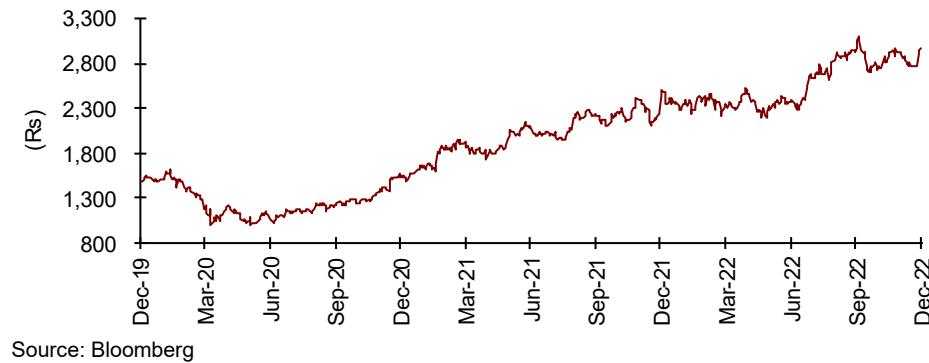
- Order backlog grew 53% in FY22 to Rs46bn, led by i) large order wins in sugar, petrochemical, steel, water, F&B and chemicals; ii) increasing interest in digitalisation, e.g. intralogistics in a steel plant. Key offerings for the segment include emission monitoring solutions, low- and mid-voltage products, DCS and instrumentation products for multiple industries.

Mobility

- Order backlog grew 136% in FY22 to Rs33.4bn, led by: i) large order wins such as Pune-Hinjewadi metro corridor, Indian Railways (IR) trainset development (*Vande Bharat*) and 9,000HP locomotive propulsion upgrade; ii) electrification and signalling order from the IR.
- As per the management, mobility will continue to be a major focus business area. Company is already present in the electrification and signalling business and is looking at expanding its portfolio to further localise the offering. Company has increased its bogey manufacturing capacity at the Aurangabad factory and component manufacturing capacity at its Nashik factory.
- Supply-chain delays for products like axle counters and loco propulsion parts, and semiconductor shortage, impacted revenues in FY22.
- Mobility segment margins were impacted due to higher capex and opex investment.
- Company is looking at expanding its sustainability business offerings to customers. It has a deep understanding of the manufacturing processes and the automation business, and is next getting into energy-efficiency programmes, especially for automatize and manufacturing industries in a large way.
- Company is bullish on expanding its e-mobility business as well, where it has a complete solution offering across the grid to socket value chain.
- During the year, Siemens also launched its *Xcelerator* programme, which is a comprehensive, curated portfolio that includes digital and IoT-enabled offerings. Under this offering, the idea is that every single product offering of Siemens will be connected digitally. It will have an ecosystem of partners, IT companies and system integrators who can collaborate with Siemens and use the products & solutions, and design tailor-made solutions including co-creating solutions.

- **Xclerator's design principles are:**
 - Interoperable
 - Flexible
 - Open
 - Software as a service
 - Cybersecure

Price chart



Financial summary

Table 4: Profit & Loss statement

(Rs mn, year ending Sep 30)

	FY21	FY22	FY23E	FY24E
Total Income	1,25,224	1,48,315	174,870	204,952
Operating Expenses	1,10,913	1,32,245	153,948	179,574
EBITDA	14,311	16,070	20,922	25,379
% margins	11.4	10.8	12.0	12.4
Depreciation & Amortisation	2,250	2,096	2,333	2,541
EBIT	12,061	13,974	18,589	22,838
Gross Interest	195	333	340	346
Other Income	2,189	3,161	3,528	3,951
PBT before exceptional	14,055	16,802	21,777	26,443
Add:	-	-	-	-
Extraordinaries/Exceptionals	-	-	-	-
Add: Share in associates	-	-	-	-
PBT	14,055	16,802	21,777	26,443
Less: Taxes	3,615	4,305	5,575	6,769
Less: Minority Interests	-	-	-	-
Net Income (Reported)	10,440	12,497	16,202	19,673
Adjusted Net Income	10,440	12,497	16,202	19,673

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending Sep 30)

	FY21	FY22	FY23E	FY24E
Assets				
Total Current Assets	1,23,254	1,44,401	166,420	189,374
of which cash & cash eqv.	48,488	56,975	60,724	71,111
Total Current Liabilities & Provisions	70,385	79,123	94,649	103,701
Net Current Assets	4,381	8,304	11,047	14,563
Investments	22,120	22,120	22,120	22,120
Other Non-Current Assets	19,670	19,790	26,270	29,021
Net Fixed Assets	8,778	8,771	8,438	7,897
Goodwill	-	-	-	-
Total Assets	1,03,437	1,15,959	128,600	144,712
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	-	-	-	-
Minority Interest	-	-	-	-
Equity Share Capital	712	712	712	712
Face Value per share (Rs)	2.00	2.00	2.00	2.00
Reserves & Surplus	1,02,725	1,15,247	127,888	144,000
Net Worth	1,03,437	1,15,959	128,600	144,712
Total Liabilities	1,03,437	1,15,959	128,600	144,712

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending Sep 30)

	FY21	FY22	FY23E	FY24E
Operating Cashflow	11,118	11,432	15,347	18,609
Working Capital Changes	(3,252)	(728)	(2,744)	(3,516)
Capital Commitments	(358)	(2,089)	(2,000)	(2,000)
Free Cashflow	7,508	8,615	10,603	13,094
Cashflow from Investing	(19,353)	3,060	(2,953)	1,201
Activities				
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Interest paid	(195)	(333)	(340)	(346)
Dividend paid	(2,849)	(3,561)	(3,561)	(3,561)
Extraordinary Items/Others	7,860	705	0	(0)
Chg. in Cash & Bank balance	(7,029)	8,487	3,750	10,387

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending Sep 30)

	FY21	FY22	FY23E	FY24E
Per Share Data (in Rs)				
Diluted adjusted EPS	29.3	35.1	45.5	55.2
Recurring Cash EPS	35.6	41.0	52.0	62.4
Dividend per share (DPS)	8.0	10.0	10.0	10.0
Book Value per share (BV)	290.5	325.6	361.1	406.4
Growth Ratios (%)				
Operating Income	26.9	18.4	17.9	17.2
EBITDA	44.5	12.3	30.2	21.3
Recurring Net Income	37.8	19.7	29.6	21.4
Diluted adjusted EPS	37.8	19.7	29.6	21.4
Diluted Recurring CEPS	25.9	15.0	27.0	19.9
Valuation Ratios				
P/E	95.6	79.8	65.2	53.7
P/CEPS	78.6	68.4	57.0	47.6
P/BV	9.6	8.6	8.2	7.3
EV / EBITDA	66.3	58.5	47.6	38.8
EV / Operating Income	7.7	6.4	5.7	4.8
EV / Operating FCF (pre -Capex)	120.7	87.9	79.0	65.3
Operating Ratios				
Raw Material/Sales (%)	68.2	67.8	67.0	66.5
SG&A/Sales (%)	7.9	10.2	10.9	11.9
Other Income / PBT (%)	15.6	18.8	16.2	14.9
Effective Tax Rate (%)	25.7	25.6	25.6	25.6
NWC / Total Assets (%)	7.0	6.6	7.0	7.7
Inventory Turnover (days)	46.2	47.3	46.3	45.3
Receivables (days)	100.1	87.3	91.3	95.3
Payables (days)	114.1	106.9	108.3	108.8
Net D/E Ratio (x)	(0.5)	(0.5)	(0.5)	(0.5)
Return/Profitability Ratios (%)				
Recurring Net Income Margins	8.3	8.4	9.3	9.6
RoCE	10.7	11.6	13.5	14.6
RoNW	10.5	11.4	13.3	14.4
Dividend Payout Ratio	0.3	0.3	22.0	18.1
Dividend Yield (%)	0.3	0.4	0.3	0.3
EBITDA Margins	11.4	10.8	12.0	12.4

Source: Company data, I-Sec research

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