EVENT UPDATE

SIEMENS

Parent action reinforces confidence

India Equity Research| Engineering and Capital Goods

Siemens Gas & Power Holding BV, a wholly owned subsidiary of Siemens AG (parent of Siemens Ltd) has proposed to acquire a 24% stake in Siemens India. In our view, this largely puts to rest investor concerns on the treatment of Siemens India's gas & power business. In its recent Q2 results, Siemens AG had reiterated it would list the gas & power entity by FY20E. Over the past two–three years, Siemens India has sharpened its business portfolio, aligning it to potential opportunities in the Indian/global markets (refer to *Fig. 1*). We see rising product mandates for Siemens India as a clear sign of its growing prominence for the parent, which is well complemented by efficient & much empowered top management as reflected in past 2-3 years performance. We maintain a non-consensus 'BUY/SO' with a TP of INR1,400 (42x March 2022E EPS).

The event and its salience

After the parent decided in May 2019 to list the gas & power subsidiary, investors surmised and debated the contours of the consolidation for the company's Indian gas & power business. The latest announcement would lift investor comfort on the matter. We understand, Siemens India will continue to run all segments, including gas & power, under its umbrella to tap into growth opportunities, independent of Siemens AGs global arrangement.

Way forward for Siemens India; Growth outlook encouraging

Siemens is one of the most diversified industrial solutions player with a presence across a wide array of sectors. While digitalisation and the uptrend in productivity spend towards remote monitoring, automation, low-voltage products, etc clearly augur well for Siemens, global and local opportunities from C&S (acquired by Siemens recently) would add to growth potential.

Outlook and valuation: Sharpening its edge: maintain 'BUY'

Over the past few years, Siemens India has clearly moved up the ranks, be it in terms of reducing business cyclicality or product innovation—whose impact is evident in the company's improved financials, particularly cash flows. While the next quarter would pose greater challenges, we see decent growth over coming two–three years given Siemens's wider product portfolio, not to mention a spectrum of sectoral opportunities. Maintain **'BUY/SO'**.

Financials **(INR mn)**

Year to March	FY19	FY20E	FY21E	FY22E
Revenues	136,838	116,925	134,913	151,268
EBITDA	14,757	11,096	14,524	16,729
Adjusted Profit	10,869	8,666	11,151	12,616
Adjusted diluted EPS (INR)	30.5	24.3	31.3	35.4
Diluted P/E (x)	34.2	42.9	33.4	29.5
EV/EBITDA (x)	21.9	29.1	22.0	18.9
ROAE (%)	12.5	9.3	11.1	11.6

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 1,045
Target Price	: INR 1,400
52-week range (INR)	: 1,717 / 947
Share in issue (mn)	: 356.1
M cap (INR bn/USD mn)	: 372 / 7,136
Avg. Daily Vol.BSE/NSE('000)	: 585.1

SHARE HOLDING PATTERN (%)

	Current	Q3FY20	Q2FY20
Promoters *	75.0	75.0	75.0
MF's, FI's & BK's	10.2	9.9	11.9
FII's	4.2	4.3	2.2
Others	10.6	10.8	10.9

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Capital Goods Index
1 month	5.0	19.5	14.1
3 months	(19.5)	(15.5)	(26.7)
12 months	(0.9)	(16.1)	(32.4)

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Chart 1: Shareholding pattern – Current and after the proposed transaction

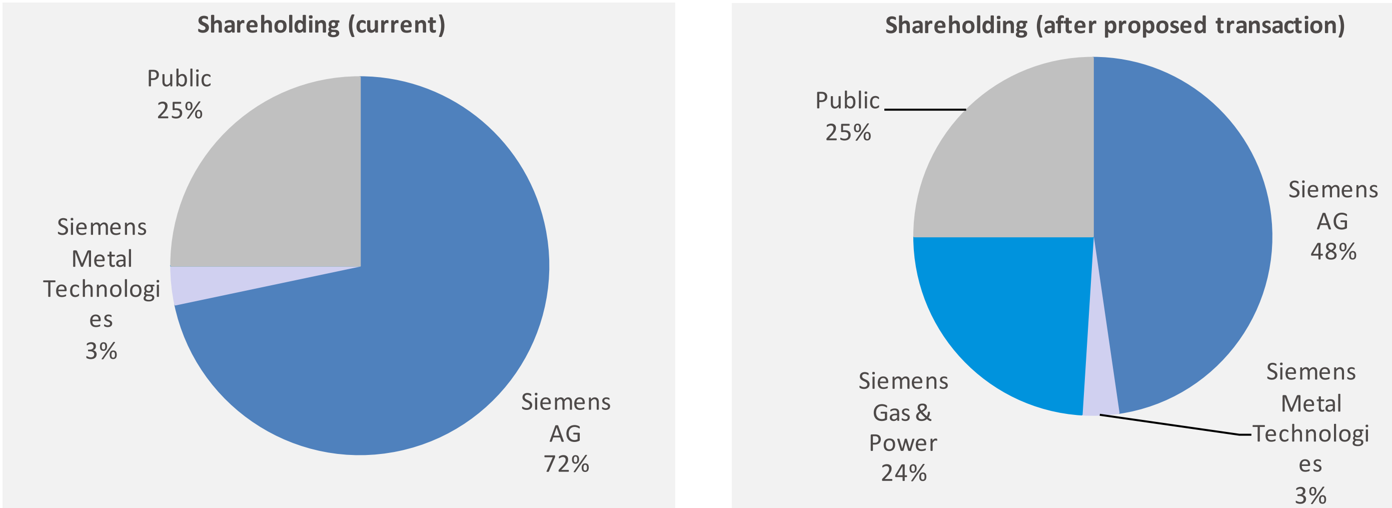

Fig. 1: Sharpening management focus on core business –A look at historical exits from non-core businesses

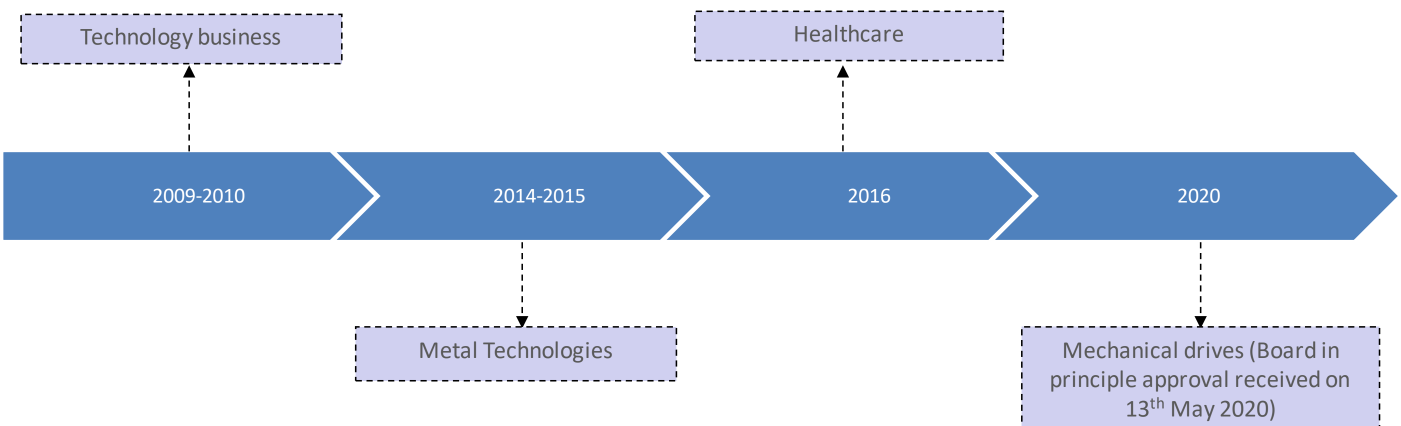

Table 1: Business breakdown - our back of the envelop calculations

	Revenue		EBIT		PAT		P/E	Current Mcap	
Average (FY18 & 19)	**INR mn**	**Mix (%)**	**INR mn**	**Mix (%)**	**INR mn**	**Mix (%)**	**(x)**	**INR bn**	**Mix (%)**
Gas & Power	49,669	*38*	6,048	*51*	4,740	*48*	*20*	95	*26*
Other businesses	82,376	*62*	5,842	*49*	5,164	*52*	*52*	277	*74*
Total	**1,32,045**	***100***	**11,889**	***100***	**9,904**	***100***	***37***	**372**	***100***

Source: Company, Edelweiss research

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	FY19	FY20E	FY21E	FY22E
Macro				
GDP(Y-o-Y %)	6.1	4.8	-	6.0
Inflation (Avg)	3.4	4.3	3.5	4.0
Repo rate (exit rate)	6.3	4.4	3.0	4.0
USD/INR (Avg)	70.0	70.7	75.0	73.0
Company				
Order inflow growth (%)	4	(15)	10	10
Dep. (% gross block)	11.1	11.5	10.5	10.5

Income statement (INR mn)

Year to September	FY19	FY20E	FY21E	FY22E
Income from operations	136,838	116,925	134,913	151,268
Direct costs	93,230	78,943	91,215	101,977
Employee costs	16,036	15,445	15,709	17,169
Other Expenses	12,815	11,441	13,465	15,393
Total operating expenses	122,081	105,829	120,389	134,539
EBITDA	14,757	11,096	14,524	16,729
Depreciation	2,173	2,473	2,468	2,678
EBIT	12,584	8,623	12,057	14,051
Less: Interest Expense	114	285	200	215
Add: Other income	3,946.00	3,242.24	3,044.51	3,023.8
Profit Before Tax	16,416	11,580	14,902	16,860
Less: Provision for Tax	5,547	2,915	3,751	4,244
Reported Profit	10,869	8,666	11,151	12,616
Adjusted Profit	10,869	8,666	11,151	12,616
Shares o /s (mn)	356	356	356	356
Basic EPS (INR)	30.5	24.3	31.3	35.4
Diluted shares o/s (mn)	356	356	356	356
Adjusted Diluted EPS	30.5	24.3	31.3	35.4
Adjusted Cash EPS	37.7	31.3	38.2	42.9
Dividend per share (DPS)	7.0	8.0	9.0	10.0
Dividend Payout Ratio(%)	27.5	32.9	28.7	28.2

Common size metrics

Year to September	FY19	FY20E	FY21E	FY22E
Operating expenses	89.2	90.5	89.2	88.9
EBITDA margins	10.8	9.5	10.8	11.1
Net Profit margins	7.9	7.4	8.3	8.3

Growth ratios (%)

Year to September	FY19	FY20E	FY21E	FY22E
Revenues	7.5	(14.6)	15.4	12.1
EBITDA	12.1	(24.8)	30.9	15.2
Adjusted Profit	21.6	(20.3)	28.7	13.1

Balance sheet (INR mn)

As on 30th September	FY19	FY20E	FY21E	FY22E
Share capital	712	712	712	712
Reserves & Surplus	89,724	95,541	103,487	112,542
Shareholders' funds	90,436	96,253	104,199	113,254
Long Term Liabilities	2,771	2,771	2,771	2,771
Sources of funds	**90,797**	**96,614**	**104,560**	**113,615**
Gross Block	19,702	21,502	23,502	25,502
Net Block	11,904	11,231	10,764	10,086
Capital work in progress	583	583	583	583
Total Fixed Assets	12,487	11,814	11,347	10,669
Non current investments	550	550	550	550
Cash and Equivalents	48,913	49,269	52,114	55,477
Inventories	10,950	9,733	11,246	13,969
Sundry Debtors	38,762	37,614	39,784	46,634
Loans & Advances	38,032	39,934	41,930	44,027
Current Assets (ex cash)	87,744	87,280	92,959	104,630
Sundry creditors	49,797	42,745	42,378	47,177
Provisions	9,100	9,555	10,033	10,534
Total Current Liab	58,897	52,300	52,411	57,712
Net Curr Assets-ex cash	28,847	34,980	40,549	46,919
Net Deferred tax	(2,410)	(2,410)	(2,410)	(2,410)
Uses of funds	**90,797**	**96,614**	**104,560**	**113,615**
BVPS (INR)	254.0	270.3	292.6	318.0

Free cash flow (INR mn)

Year to September	FY19	FY20E	FY21E	FY22E
Reported Profit	10,869	8,666	11,151	12,616
Add: Depreciation	2,173	2,473	2,468	2,678
Interest (Net of Tax)	75	213	149	161
Others	(5,264)	(3,171)	(2,994)	(2,970)
Less: Changes in WC	(4,452)	6,133	5,569	6,370
Operating cash flow	12,305	2,048	5,205	6,116
Less: Capex	1,142	1,800	2,000	2,000
Free Cash Flow	**11,163**	**248**	**3,205**	**4,116**

Cash flow metrics

Year to September	FY19	FY20E	FY21E	FY22E
Operating cash flow	12,305	2,048	5,205	6,116
Financing cash flow	(3,113)	(2,849)	(3,205)	(3,561)
Investing cash flow	(10,512)	1,157	845	808
Net cash Flow	(1,320)	356	2,845	3,363
Capex	(336)	(1,800)	(2,000)	(2,000)
Dividend paid	(3,113)	(2,849)	(3,205)	(3,561)

Profitability and efficiency ratios

Year to September	FY19	FY20E	FY21E	FY22E
ROAE (%)	12.5	9.3	11.1	11.6
ROACE (%)	19.1	12.7	15.1	15.7
Inventory Days	44	48	42	45
Debtors Days	101	119	105	104
Payable Days	192	214	170	160
Cash Conversion Cycle	(47)	(47)	(24)	(11)
Current Ratio	2.3	2.6	2.8	2.8
Interest Coverage Ratio	110.4	30.3	60.4	65.2

Operating ratios

Year to September	FY19	FY20E	FY21E	FY22E
Total Asset Turnover	1.6	1.2	1.3	1.4
Fixed Asset Turnover	10.8	10.1	12.3	14.5
Equity Turnover	1.6	1.3	1.3	1.4

Valuation parameters

Year to September	FY19	FY20E	FY21E	FY22E
Adj. Diluted EPS (INR)	30.5	24.3	31.3	35.4
Y-o-Y growth (%)	*21.6*	*(20.3)*	*28.7*	*13.1*
Adjusted Cash EPS (INR)	37.7	31.3	38.2	42.9
Diluted P/E (x)	34.2	42.9	33.4	29.5
P/B (x)	4.1	3.9	3.6	3.3
EV / Sales (x)	2.4	2.8	2.4	2.1
EV / EBITDA (x)	21.9	29.1	22.0	18.9
Dividend Yield (%)	0.7	0.8	0.9	1.0

Peer comparison valuation

	Market cap	Diluted P/E (X)		P/B (X)		ROAE (%)	
Name	(USD mn)	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Siemens	7,136	42.9	33.4	3.9	3.6	9.3	11.1
ABB India	2,588	48.8	63.2	5.4	5.0	9.9	7.9
Median	-	45.9	48.3	4.6	4.3	9.6	9.5
AVERAGE	-	45.9	48.3	4.6	4.3	9.6	9.5

Source: Edelweiss research

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
Dr. Daniel Spindler	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	5.18
Siemens metals tech	3.3	Hdfc asset managemen	1.17
Reliance capital tru	1.07	Vanguard group	0.93
Dsp blackrock invest	0.55	Blackrock	0.52
Uti asset management	0.23	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	BUY	SO	M
Bharat Heavy Electricals	REDUCE	SP	M	CG Power and Industrial Solutions	HOLD	SP	M
Cummins India	BUY	SO	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	SU	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
14-May-20	**ABB India**	Recalibrating to new normal; Cash, customer & cost at core; *Result Update*	856	Hold
13-May-20	**Siemens**	Lockdown to mar FY20; best fit for opportunities; *Result Update*	1,045	Buy
09-May-20	**Siemens**	Siemens AG: 'Ingenuity' put to test amidst pandemic; *Company Update*	1,043	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240

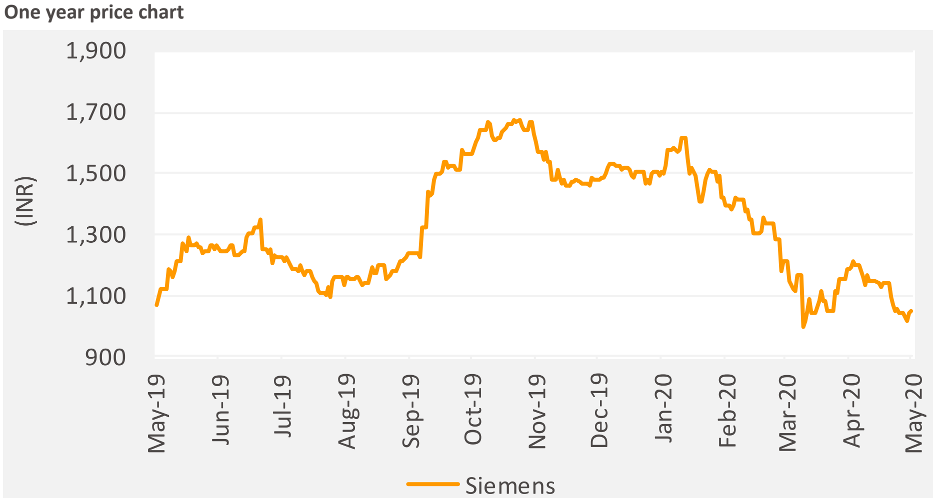
* 1stocks under review

	> 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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