

BSE SENSEX	S&P CNX
40,575	11,968
Bloomberg	SIEM IN
Equity Shares (m)	356
M.Cap.(INRb)/(USDb)	549.7 / 7.7
52-Week Range (INR)	1717 / 902
1, 6, 12 Rel. Per (%)	-12/24/53
12M Avg Val (INR M)	740
Free float (%)	25.0

CMP: INR1,544 TP: INR1,792(+16%)

Buy

Order inflow disappoints; focus on profitable growth

- Earnings underperformance attributed to margin miss:** Revenue grew 4.8% to INR41.3b (in-line) in 4QFY19 (year ending September). EBITDA margin shrank 80bp YoY to 9.8% (our estimate: 11.0%). Thus, EBITDA declined 3.1% YoY to INR4.1b (13% miss). Adjusted for one-off income of INR473m toward monetization of property, PBT was flat YoY at INR4.3b. Due to re-measurement of DTA, the effective tax rate was at 32.2%. Adj. PAT was up 5.7% YoY to INR2.9b.
- For FY19, revenue/EBITDA/adj. PAT grew 7.5%/17.9%/26.1%.** Operating cash flow was strong at INR12.3b v/s INR422m last year, led by an improvement in working capital. Net working capital as a percentage of sales improved to 69.6 days from 83.9 days in FY18.
- Segmental performance:** (a) Gas & Power revenue grew 11.9% YoY to INR16.3b; PBIT margin expanded 40bp YoY to 10.8%. (b) Smart Infrastructure revenue was down 9.2% YoY to INR11b; PBIT margin was at 9.3% (+230bp YoY). (c) Mobility revenue was flattish at INR3.6b; PBIT margin shrank 510bp YoY to 10.5%. (d) Digital Industries revenue grew at a paltry 3.8% to INR7.2b; PBIT margin expanded 140bp YoY to 7.8%. (e) Portfolio of Companies revenue grew 17.6% YoY to INR3.9b, but PBIT margin was at -6.2% v/s +6.3% last year due to one-off employee expense (led by VRS and inventory led provision).
- Lower order inflow, stable book-to-bill ratio:** Order inflow declined 14.3% YoY to INR31.9b in 4QFY19. SIEM let go some large orders which would have affected profitability. For FY19, order book was down 3.8% YoY at INR119b. However, book to bill stood at ~1x, which management believes is stable to drive growth (peak book to bill was 1.2x).
- Maintain BUY:** Our EPS estimate increase by 17%/19% in FY20/FY21 mainly on account of lower tax rates. We roll forward our estimates to Sep'21E and value SIEM at 38x Sep'21E EPS to arrive at a TP of INR1,792/share (prior: INR1,290).

Financials & Valuations (INR b)

Y/E Sep	2019	2020E	2021E
Net Sales	136.8	150.4	169.1
EBITDA	14.8	17.5	20.2
PAT	10.9	14.5	16.8
EPS (INR)	30.5	40.6	47.2
Gr. (%)	21.6	33.0	16.1
BV/Sh (INR)	254.0	284.9	320.7
RoE (%)	12.0	14.3	14.7
RoCE (%)	12.4	14.7	15.1
P/E (x)	50.5	38.0	32.7
P/BV (x)	6.1	5.4	4.8

Estimate change 

TP change 

Rating change 

Quarterly Performance

Y/E September	FY18				FY19				FY18	FY19	MOSLe 4QE	Var %
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Total Revenues	24,295	32,834	30,730	39,392	28,071	35,496	31,984	41,288	1,27,251	1,36,839	42,369	-2.6%
Change (%)	5.9	12.1	15.9	25.4	15.5	8.1	4.1	4.8	17.7	7.5	7.6	
EBITDA	2,724	3,228	3,023	4,186	3,661	4,257	3,537	4,056	13,161	15,511	4,657	-12.9%
Change (%)	16.6	15.9	33.4	32.0	34.4	31.9	17.0	-3.1	25.2	17.9	11.3	
As % of Revenues	11.2	9.8	9.8	10.6	13.0	12.0	11.1	9.8	10.3	11.3	11.0	
Depreciation	470	490	500	507	532	571	512	558	1,967	2,173	515	
Interest	17	11	4	51	2	24	2	86	82	114	52	
Other Income	705	639	692	764	877	830	825	941	2,800	3,473	822	
Extra-ordinary Items	0	0	0	0	-596	-157	0	354	0	-399	0	
PBT	2,942	3,366	3,211	4,392	3,408	4,335	3,848	4,707	13,912	16,697	4,912	-4.2%
Tax	1,037	1,169	1,167	1,600	1,128	1,532	1,367	1,401	4,973	5,428	838	
Effective Tax Rate (%)	35.2	34.7	36.3	36.4	33.1	35.3	35.5	29.8	35.7	32.5	17.1	
Reported PAT	1,905	2,197	2,044	2,792	2,280	2,803	2,481	3,306	8,939	10,870	4,074	-18.9%
Adjusted PAT	1,905	2,197	2,044	2,792	2,876	2,960	2,481	2,952	8,939	11,269	4,074	-27.5%
Change (%)	18.6	22.6	25.5	39.1	51.0	34.7	21.4	5.7	27.1	26.1	45.9	

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Exhibit 1: Segmental snapshot according to the new classification

Revenues (INR m)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	Change YoY (%)	FY19
Gas and Power	14,583	10,336	12,588	11,314	16,321	12%	50,559
Smart Infrastructure	12,111	7,778	9,958	9,218	10,996	-9%	37,950
Mobility	3,552	1,745	3,380	2,490	3,588	1%	11,203
Digital Industries	6,923	6,398	7,009	6,278	7,189	4%	26,874
Portfolio of Companies	3,354	2,142	3,004	2,951	3,945	18%	12,042
Others	295	219	331	329	312	6%	1,191
Gross Sales	40,818	28,618	36,270	32,580	42,351	4%	1,39,819
Elimination	1,426	548	774	596	1,063		2981
Net Sales	39,392	28,070	35,496	31,984	41,288	5%	1,36,838
EBIT (INR m)							
Gas and Power	1,520	2,000	1,603	1,543	1,765	16.1	6,911
Smart Infrastructure	853	771	1,000	717	1,028	20.5	3,516
Mobility	553	-158	610	297	377	-31.8	1,126
Digital Industries	443	161	505	421	561	26.6	1,648
Portfolio of Companies	211	361	-46	-173	-245	-216.1	-103
Others	99	-7	14	220	13	-86.9	240
Total EBIT	3,679	3,128	3,686	3,025	3,499	-4.9	13,338
EBIT Margin %							
Gas and Power	10.4	19.3	12.7	13.6	10.8	39	13.7
Smart Infrastructure	7.0	9.9	10.0	7.8	9.3	231	9.3
Mobility	15.6	(9.1)	18.0	11.9	10.5	-506	10.1
Digital Industries	6.4	2.5	7.2	6.7	7.8	140	6.1
Portfolio of Companies	6.3	16.9	(1.5)	(5.9)	(6.2)	NA	(0.9)
Others	33.6	(3.2)	4.2	66.9	4.2	NA	20.2
Total EBIT	9.3	11.1	10.4	9.5	8.5	-86	9.7

Source: MOFSL, Company

Key takeaways from management meet:**On the current market condition:**

- Power segment: T&D has slowed down with orders in FY19 either flat or down YoY. There is a lack of opportunity in mid-term in large thermal generation projects. However, demand for industrial steam turbine has been robust across sectors like steel, cement, chemicals, and to some extent, sugar.
- Infrastructure segment: Large capex is either absent or deferred due to subdued market conditions. However, orders for commercial building systems were encouraging with demand for advanced security and energy efficiency solutions.
- Over the last few months, even opex-related spend has been under pressure.

Segment:

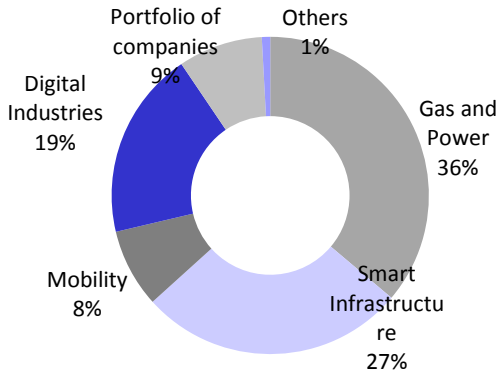
- Gas & power: Growth in service business and small turbines was offset by a decline in large projects. Margins in FY19 had a 260bp impact of forex gains. New orders were up by 6.8% YoY (INR45.1b) in FY19.
- Smart infrastructure: Sectors like hospitality, commercial offices and data centers led to growth, while there was a slowdown in utilities. Distribution business faced increased competitive and price pressure. New orders were up 7.4% YoY (INR39.2b) in FY19.
- Digital Industries: Sectors like F&B and pharma drove growth, while automobiles saw slowdown in 2HFY19. New orders were up 10.6% YoY (INR26.5) in FY19.

- **Mobility:** Management let go some orders where pricing was aggressive and would have affected profitability. Sales growth came from execution of order backlog. New orders were down 42% YoY (INR8.6b) in FY19; however, adjusting for large orders, new orders stood at INR7.5b (-12% YoY) in FY19. In FY18, there were two large orders worth INR2.6b.
- **Portfolio of companies:** Growth was mainly driven by wind industry. Margins were impacted by one-time VRS expense and inventory provisions (both ~0.5b each in FY19). New orders in FY19 were up 31.7% YoY (INR13b). Siemens had to optimize this segment since operations were disjointed and profitability was under stress due to large components being imported.

Other key takeaways:

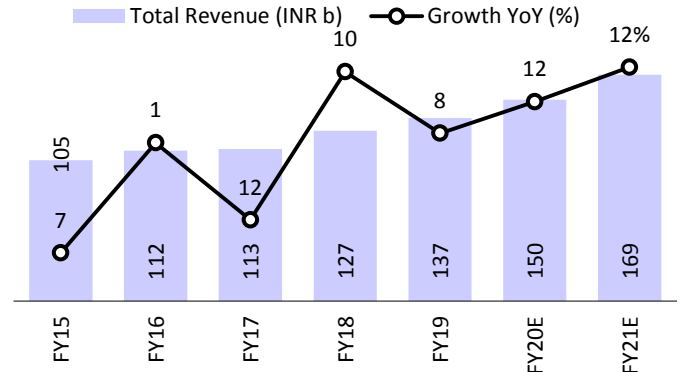
- Green energy corridor is an opportunity under T&D. However, the role of Siemens will be towards the end of capex cycle, with ordering for substations/transmission system done after the land has been acquired and civil works completed.
- Higher cash on balance sheet is due to: (1) tightness in market which has led to an impact of receivables more critical on the balance sheet, (2) for any potential acquisition targets, (3) and to continue with capex- and opex-related spends.
- A few large HVDC orders are under discussion by the government in which Siemens would like to participate: (a) India-Sri Lanka and (b) Leh-Ladakh link.
- Under digitalization, there are 105 use cases across 18 industries with multiple themes.

Exhibit 2: Revenue breakdown (FY19)



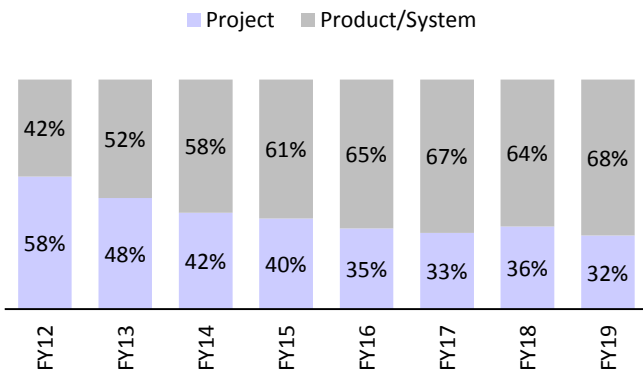
Source: MOFSL, Company

Exhibit 3: Expect revenue CAGR of 11% over FY19-21



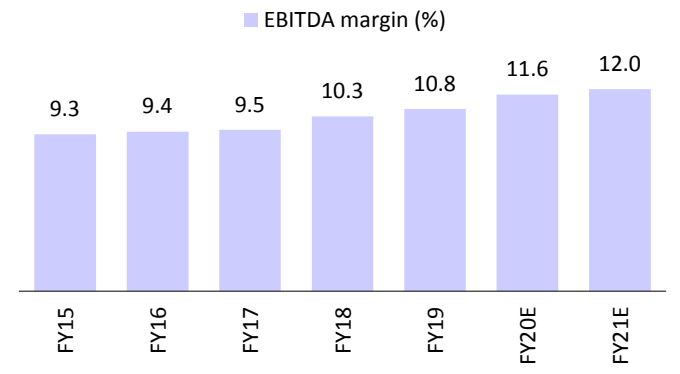
Source: MOFSL, Company

Exhibit 4: Share of product business has been on an uptrend



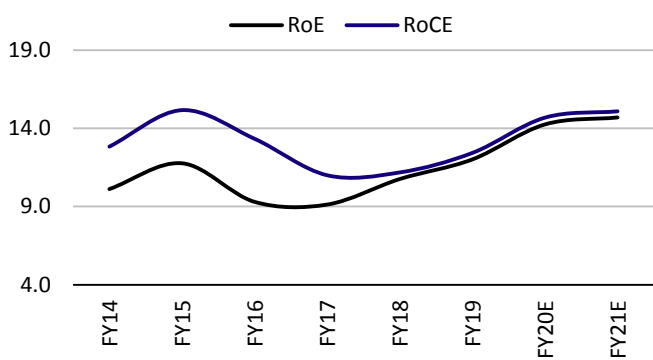
Source: MOFSL, Company

Exhibit 5: EBITDA margin to expand over 120bp from FY19 to FY21



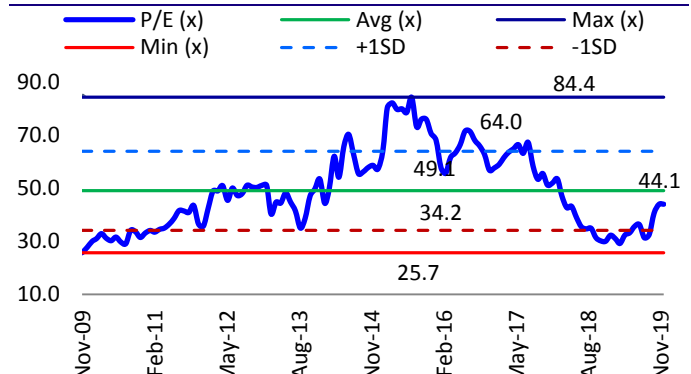
Source: MOFSL, Company

Exhibit 6: RoEs and RoCEs to continue uptrend



Source: MOFSL, Company

Exhibit 7: Siemens trades at a discount to its long-term trading average



Source: MOFSL, Company

Exhibit 8: Earnings change table

Earnings Change	Old		New		Change	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	1,50,851	1,69,649	1,50,381	1,69,136	-0	-0
EBITDA	16,740	19,429	17,491	20,231	4	4
EBITDA margin	11.1%	11.5%	11.6%	12.0%	0.5	0.5
Adj. PAT	12,310	14,109	14,461	16,788	17	19

Source: MOSL

Financials and Valuations

Income Statement (Standalone)

(INR M)

Y/E September	2015	2016	2017	2018	2019	2020E	2021E
Total Revenues	1,05,124	1,08,094	1,10,148	1,27,251	1,36,838	1,50,381	1,69,136
Change (%)	-1.4	2.8	1.9	15.5	7.5	9.9	12.5
Raw Materials	70,814	71,812	73,504	85,864	93,230	1,01,969	1,14,544
Staff Cost	13,942	14,139	13,926	14,487	16,036	16,838	18,522
SGA Expenses	10,607	11,940	12,205	13,739	12,815	14,083	15,840
EBITDA	9,761	10,203	10,512	13,161	14,757	17,491	20,231
Change (%)	34	5	3	25	12	19	16
% of Total Rev.	9.3	9.4	9.5	10.3	10.8	11.6	12.0
Depreciation	2,156	2,264	1,967	1,967	2,173	2,259	2,368
Interest	73	91	77	82	114	114	114
Other Income	1,604	1,645	2,547	2,800	3,946	4,207	4,686
EO Items (net)	5,798	22,825	4,301	0	0	0	0
PBT	14,934	32,318	15,317	13,912	16,416	19,325	22,435
Tax	3,102	3,148	3,982	4,973	5,547	4,864	5,647
Rate (%)	20.8	9.7	26.0	35.7	33.8	25.2	25.2
PAT	11,832	29,170	11,335	8,939	10,869	14,461	16,788
Adjusted PAT	6,034	6,345	7,034	8,939	10,869	14,461	16,788
Change (%)	36.3	5.2	10.9	27.1	21.6	33.0	16.1

Balance Sheet (Standalone)

(INR M)

Y/E September	2015	2016	2017	2018	2019	2020E	2021E
Share Capital	712	712	712	712	712	712	712
Reserves	50,554	67,494	76,335	82,342	89,724	1,00,714	1,13,473
Net Worth	51,266	68,207	77,047	83,054	90,436	1,01,426	1,14,185
Loans	0	0	0	0	0	0	0
Net Deferred Tax Liab	-3,175	-3,350	-2,442	-2,665	-2,410	-2,410	-2,410
Capital Employed	48,092	64,856	74,605	80,389	88,026	99,016	1,11,775
Gross Fixed Assets	28,802	29,803	17,502	19,574	20,137	21,137	22,137
Less: Depreciation	15,269	15,959	4,158	6,060	8,233	10,492	12,859
Net Fixed Assets	13,533	13,844	13,344	13,514	11,904	10,645	9,278
Capital WIP	321	0	1,430	624	583	583	583
Investments	1,764	550	550	550	550	550	550
Curr. Assets	86,485	99,042	1,13,465	1,25,139	1,36,657	1,55,009	1,77,588
Inventory	9,509	9,993	10,165	11,389	10,950	12,034	13,535
Debtors	30,183	30,533	34,725	37,250	38,762	42,598	47,911
Cash & Bank Balance	20,959	35,094	40,713	36,457	48,913	58,581	69,134
Loans & Advances	14,958	3,425	6,216	8,733	8,513	9,356	10,522
Other Current assets	10,875	19,997	21,646	31,310	29,519	32,440	36,486
Current Liab. & Prov.	54,011	48,579	54,184	59,438	61,668	67,771	76,223
Creditors	24,863	19,386	26,556	30,303	32,907	36,164	40,674
Other Liabilities	12,687	18,030	17,377	18,123	17,025	18,710	21,043
Provisions	16,460	11,163	10,251	11,012	11,736	12,898	14,506
Net Current Assets	32,474	50,462	59,281	65,701	74,989	87,238	1,01,365
Application of Funds	48,092	64,856	74,605	80,389	88,026	99,016	1,11,775

Financials and Valuations

Ratios

Y/E September	2015	2016	2017	2018	2019	2020E	2021E
Basic (INR)							
EPS	17.0	17.8	19.8	25.1	30.5	40.6	47.2
Growth (%)	36.3	5.2	10.9	27.1	21.6	33.0	16.1
Cash EPS	23.0	24.2	25.3	30.6	36.6	47.0	53.8
Book Value	144.0	191.6	216.4	233.3	254.0	284.9	320.7
DPS	10.0	33.5	7.0	7.0	7.0	8.1	9.4
Payout (incl. Div. Tax.)	30.1	40.9	20.0	20.0	20.0	20.0	20.0
Valuation (x)							
P/E (Standalone)	59.9	56.9	51.4	40.4	50.5	38.0	32.7
Cash P/E	44.1	42.0	40.1	33.1	42.1	32.9	28.7
EV/EBITDA	34.9	32.0	30.5	24.7	33.9	28.1	23.7
EV/Sales	3.2	3.0	2.9	2.6	3.7	3.3	2.8
Price/Book Value	7.0	5.3	4.7	4.3	6.1	5.4	4.8
Dividend Yield (%)	1.0	3.3	0.7	0.7	0.5	0.5	0.6
Profitability Ratios (%)							
RoE	11.8	9.3	9.1	10.8	12.0	14.3	14.7
RoCE	15.2	13.3	11.0	11.2	12.4	14.7	15.1
RoIC	16.7	17.5	16.3	18.0	21.9	29.0	32.2
Turnover Ratios							
Debtors (Days)	105	103	115	107	103	103	103
Inventory (Days)	33	34	34	33	29	29	29
Creditors. (Days)	86	65	88	87	88	88	88
Asset Turnover (x)	2.2	1.7	1.5	1.6	1.6	1.5	1.5
Leverage Ratio							
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement

Y/E September	2015	2016	2017	2018	2019	2020E	2021E
(INR M)							
PBT before EO Items	9,136	9,493	11,016	13,912	16,416	19,325	22,435
Add : Depreciation	2,156	2,264	1,967	1,967	2,173	2,259	2,368
Interest	1	2	3	4	114	114	114
Less: Direct taxes paid	3,102	3,148	3,982	4,973	-6,130	-4,864	-5,647
(Inc)/Dec in WC	3,246	-3,853	-3,200	-10,676	4,452	-2,581	-3,574
CF from Operations	11,436	4,755	5,801	230	17,025	14,253	15,696
EO Income	5,798	22,825	5,205	0	-1,338	0	0
CF from oper. Incl. EOitems	17,235	27,581	11,006	230	15,687	14,253	15,696
(Inc)/dec in FA	-1,481	-2,214	-2,863	-1,554	-1,197	-1,000	-1,000
Free Cash Flow	15,753	25,366	8,143	-1,324	14,490	13,253	14,696
(Pur)/Sale of Investments	-1,682	0	-0	0	235	0	0
CF from Investments	-3,163	-2,214	-2,863	-1,554	-962	-1,000	-1,000
(Inc)/Dec in Networth	-38	2,082	496	58	0	0	0
Inc/(Dec) in Debt	0	0	0	0	0	0	0
Less : Interest Paid	1	2	0	0	108	114	114
Dividend Paid	4,285	14,312	2,990	2,990	3,005	3,471	4,029
CF from Fin. Activity	-4,324	-12,232	-2,495	-2,932	-3,113	-3,585	-4,143
Inc/Dec of Cash	9,748	13,134	5,648	-4,256	11,612	9,668	10,553
Add: Beginning Bal.	11,210	20,959	35,094	40,713	36,457	48,913	58,581
Closing Balance	20,959	35,094	40,713	36,457	48,913	58,581	69,134

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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