

BUY

TP: Rs 4,500 | ▲ 19%

SIEMENS INDIA

| Capital Goods

| 12 May 2023

Strong momentum continues

- Robust execution and margins in Q2 led by smart infrastructure and mobility segments; base order inflow at Rs 57bn
- Key Rs 255bn order win for 9000HP locomotive; large tendering by Indian Railways expected to continue in FY24
- Target P/E hiked to 62x (vs. 57x) on high growth visibility, taking our TP to Rs 4,500 (vs. Rs 3,800) on rollover – reiterate BUY

Strong Q2: SIEM reported a strong Q2FY23 (Sep Y/E) with revenue up 28% YoY to Rs 48.6bn. EBITDA margin came in at 12.8%, up 50bps YoY, aided by gains across the smart infrastructure (SI) and mobility segments. Net profit surged 43% YoY to Rs 4.7bn.

All-round growth: SIEM's power and gas revenue grew 30% YoY (to Rs 15.5bn), SI was up 16% (Rs 17.2bn), mobility 65% (Rs 4.9bn), and digital industries (DI) 31% (Rs 11.4bn). The SI segment was also buoyed by the performance of C&S Electric which grew 7% YoY to Rs 3.5bn. EBIT margin for power & gas stood at 11.4% (vs. 13.6% in Q2FY22), SI 11.3% (vs. 6%), mobility 8.7% (vs. 12.4%), and DI 11.2% (11.4%). The big swing in the SI segment was propelled by the continuing turnaround in subsidiary C&S Electric where margins swelled 420bps to 7.6%.

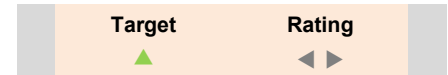
Base orders healthy: SIEM reported order inflow of Rs 312bn in Q4 which includes base orders of Rs 57bn (+7% YoY). Apart from the base orders, the inflows include a Rs 255bn deal for the 9000HP locomotive project. This takes the company's order book to ~Rs 450bn, implying a book-to-bill ratio of 2.8x.

Outlook remains solid: Management has stated that it expects substantial tendering activity by the Indian Railways going forward, apart from the ongoing government spend on infrastructure. In the private sector, the steel, cement, logistics and electric vehicle segments continue to be prime spenders. Export markets are also attractive, and we expect C&S to play a key role here given its strong low-voltage portfolio.

Maintain BUY: SIEM remains a key beneficiary of India's capex cycle, benefiting from its digitalisation and automation businesses as well as traction in the mobility segment. We raise our target P/E multiple from 57x to 62x – a 30% premium to the 5Y average – given the high capex visibility and substantial order pipeline in the railways business. This, coupled with roll forward of valuations to Mar'25E, takes our TP to Rs 4,500 (vs. Rs 3,800). BUY.

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Key changes



Ticker/Price	SIEM IN/Rs 3,797
Market cap	US\$ 16.5bn
Free float	25%
3M ADV	US\$ 14.3mn
52wk high/low	Rs 3,812/Rs 2,155
Promoter/FPI/DII	75%/5%/10%

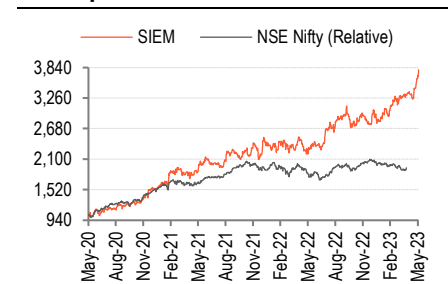
Source: NSE | Price as of 11 May 2023

Key financials

Y/E 30 Sep	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,61,378	1,96,656	2,33,094
EBITDA (Rs mn)	17,573	23,402	29,432
Adj. net profit (Rs mn)	12,619	17,228	22,202
Adj. EPS (Rs)	35.4	48.4	62.4
Consensus EPS (Rs)	35.4	47.3	61.9
Adj. ROAE (%)	11.5	14.1	16.3
Adj. P/E (x)	107.1	78.5	60.9
EV/EBITDA (x)	79.9	60.6	48.3
Adj. EPS growth (%)	22.5	36.5	28.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)
Revenue	48,578	38,011	27.8	40,151	21.0
EBITDA	6,212	4,694	32.3	5,992	3.7
EBITDA margin (%)	12.8	12.3	50bps	14.9	(210bps)
Depreciation	785	788	(0.4)	761	3.2
Interest	99	128	(22.7)	37	167.6
Other Income	1,166	668	74.6	1,017	14.7
PBT	6,494	4,446	46.1	6,211	4.6
Tax	1,776	1,148	54.7	1,584	12.1
Adjusted PAT	4,718	3,298	43.1	4,627	2.0
Exceptional item	-	-	-	-	-
Reported PAT	4,718	3,298	43.1	4,627	2.0
Adj. PAT margin (%)	9.7	8.7	100bps	11.5	(180bps)
EPS (Rs)	13.3	9.3	43.1	13.0	2.0

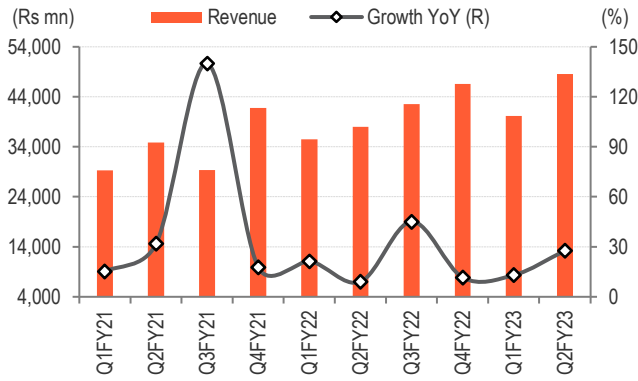
Source: Company, BOBCAPS Research

Fig 2 – Segmental overview

Particulars	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Revenue (Rs mn)										
Power & Gas	10,169	11,913	9,549	15,710	10,892	11,958	14,544	16,316	11,601	15,554
Growth YoY (%)	14.4	16.0	72.2	(0.8)	7.1	0.4	52.3	3.9	6.5	30.1
Smart Infrastructure	8,821	11,501	10,717	15,268	12,870	14,895	15,060	16,658	15,197	17,249
Growth YoY (%)	16.2	48.5	246.6	65.8	45.9	29.5	40.5	9.1	18.1	15.8
Mobility	2,105	2,589	1,441	3,117	3,007	2,951	3,911	4,418	3,838	4,864
Growth YoY (%)	1.0	1.3	28.5	(5.2)	42.9	14.0	171.4	41.7	27.6	64.8
Digital Industries	7,699	7,917	6,838	7,839	7,910	8,739	9,962	9,444	10,193	11,407
Growth YoY (%)	28.3	50.3	275.9	23.9	2.7	10.4	45.7	20.5	28.9	30.5
Portfolio of Companies	936	1,305	963	1,233	1,301	1,536	1,411	-	-	-
Growth YoY (%)	(62.3)	39.9	52.6	(3.4)	39.0	17.7	46.5	-	-	-
EBIT (Rs mn)										
Power & Gas	1,277	1,804	765	2,072	1,232	1,623	1,243	1,550	1,331	1,766
Margin (%)	12.6	15.1	8.0	13.2	11.3	13.6	8.5	9.5	11.5	11.4
Smart Infrastructure	663	988	166	729	600	899	1,072	1,283	1,328	1,947
Margin (%)	7.5	8.6	1.5	4.8	4.7	6.0	7.1	7.7	8.7	11.3
Mobility	230	290	238	364	304	366	183	378	135	423
Margin (%)	10.9	11.2	16.5	11.7	10.1	12.4	4.7	8.6	3.5	8.7
Digital Industries	802	686	315	527	666	992	828	1,114	2,427	1,277
Margin (%)	10.4	8.7	4.6	6.7	8.4	11.4	8.3	11.8	23.8	11.2
Portfolio of Companies	50	125	27	49	30	136	(24)	-	-	-
Margin (%)	5.3	9.6	2.8	4.0	2.3	8.9	(1.7)	-	-	-

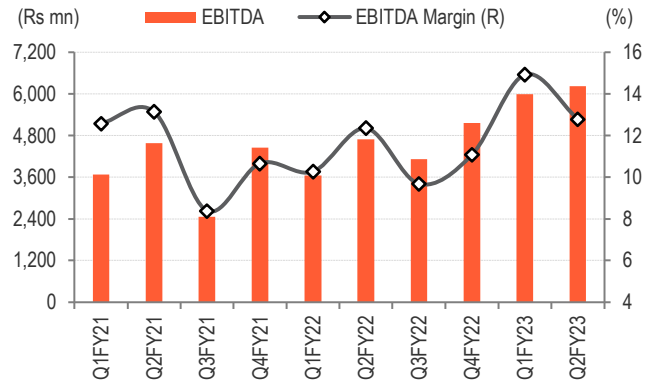
Source: Company, BOBCAPS Research

Fig 3 – Revenue trend



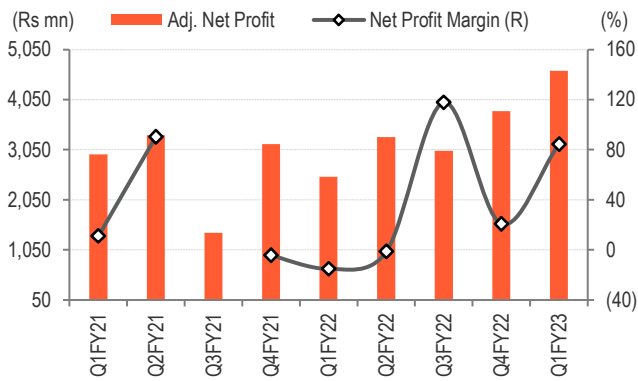
Source: Company, BOBCAPS Research

Fig 4 – EBITDA trend



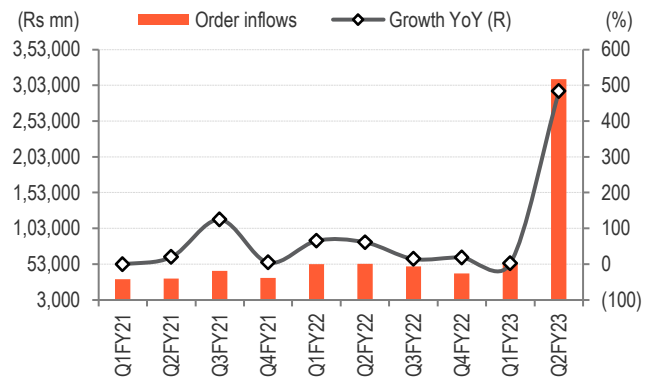
Source: Company, BOBCAPS Research

Fig 5 – Adj. PAT trend



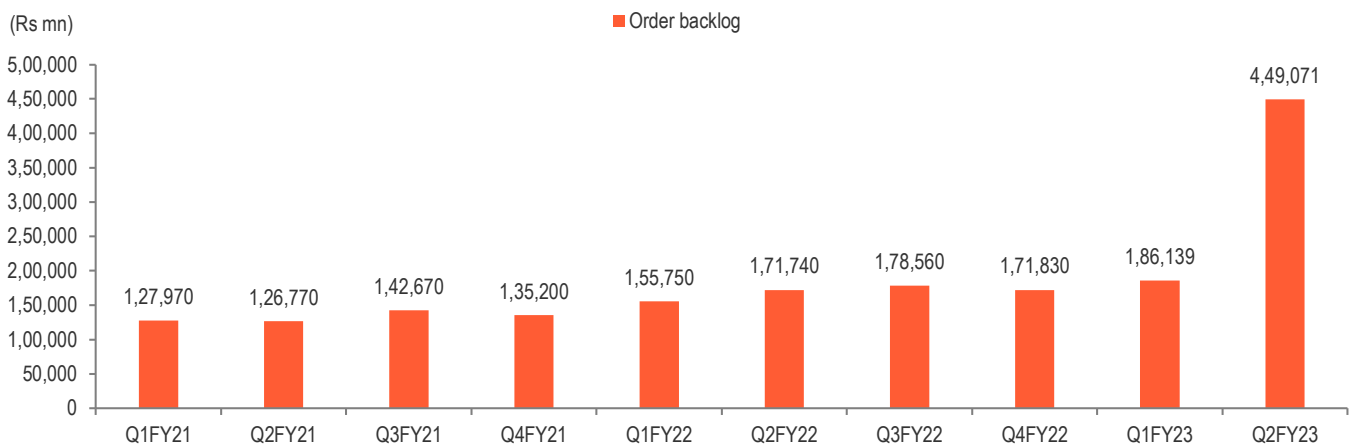
Source: Company, BOBCAPS Research

Fig 6 – Quarterly order inflows



Source: Company, BOBCAPS Research

Fig 7 – Order backlog



Source: Company, BOBCAPS Research

Valuation methodology

SIEM is benefiting from structural tailwinds in its digitalisation and automation businesses, as well as traction in the previously underperforming mobility segment. Order inflows during Q2FY23 include a Rs 255bn win from the Indian Railways (IR) for the 9000HP locomotive project, and management expects substantial tendering activity by the IR going forward. SIEM is also well positioned to harness the opportunities from green energy transition.

We raise our target P/E multiple from 57x to 62x – a 30% premium to the stock’s five-year average – given the high capex visibility and substantial order pipeline in the railways business. This, coupled with roll forward of valuations to Mar’25E, takes our TP up to Rs 4,500 (vs. Rs 3,800). Maintain BUY.

Fig 8 – Revised estimates

Y/E Sep (Rs mn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	1,96,656	2,33,094	1,96,656	2,33,094	0.0	0.0
EBITDA	23,402	29,432	23,402	28,965	0.0	1.6
PAT	17,228	22,202	17,228	21,853	0.0	1.6
EPS	48.4	62.4	48.4	61.4	0.0	1.6
EBITDA Margin (%)	11.9	12.6	11.9	12.4	0bps	20bps

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- slowdown in capex, and
- lower profitability in the mobility business.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ABB India	ABB IN	10.0	3,860	3,700	HOLD
AIA Engineering	AIAE IN	3.1	2,721	3,300	BUY
Cummins India	KKC IN	5.5	1,628	1,600	HOLD
KEC International	KECI IN	1.7	547	500	HOLD
Larsen & Toubro	LT IN	38.4	2,242	2,630	BUY
Siemens India	SIEM IN	16.5	3,797	4,500	BUY
Thermax	TMX IN	3.4	2,339	2,200	HOLD

Source: BOBCAPS Research, NSE | Price as of 11 May 2023

Financials

Income Statement

Y/E 30 Sep (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	1,31,985	1,61,378	1,96,656	2,33,094	2,83,697
EBITDA	14,880	17,573	23,402	29,432	37,812
Depreciation	2,974	3,171	3,843	3,963	4,083
EBIT	11,906	14,402	19,559	25,469	33,729
Net interest inc./(exp.)	243	363	220	220	220
Other inc./(exp.)	2,264	3,078	3,694	4,432	5,319
Exceptional items	0	0	0	0	0
EBT	13,927	17,117	23,033	29,681	38,828
Income taxes	3,629	4,498	5,804	7,480	9,785
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	10,298	12,619	17,228	22,202	29,043
Adjustments	0	0	0	0	0
Adjusted net profit	10,298	12,619	17,228	22,202	29,043

Balance Sheet

Y/E 30 Sep (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	36,715	40,401	48,490	57,475	69,953
Other current liabilities	31,702	39,498	47,413	56,198	68,398
Provisions	0	0	0	0	0
Debt funds	25	0	0	0	0
Other liabilities	8,160	5,013	6,109	7,241	8,813
Equity capital	712	712	712	712	712
Reserves & surplus	1,02,838	1,15,466	1,27,526	1,43,067	1,63,397
Shareholders' fund	1,03,550	1,16,178	1,28,238	1,43,779	1,64,109
Total liab. and equities	1,80,152	2,01,090	2,30,250	2,64,693	3,11,273
Cash and cash eq.	51,625	65,841	70,153	82,721	98,085
Accounts receivables	36,827	37,860	48,490	57,475	69,953
Inventories	17,867	21,650	26,939	31,931	38,863
Other current assets	25,132	27,499	35,021	41,510	50,521
Investments	0	0	0	0	0
Net fixed assets	32,647	31,090	28,747	26,285	23,702
CWIP	338	510	621	737	897
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	15,716	16,640	20,278	24,035	29,252
Total assets	1,80,152	2,01,090	2,30,250	2,64,693	3,11,273

Cash Flows

Y/E 30 Sep (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	14,222	9,875	13,634	23,469	29,383
Capital expenditures	(1,071)	(1,313)	(1,500)	(1,500)	(1,500)
Change in investments	(13,623)	4,419	(111)	(115)	(160)
Other investing cash flows	(9,196)	(3,459)	(2,542)	(2,625)	(3,646)
Cash flow from investing	(23,890)	(353)	(4,153)	(4,240)	(5,306)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	0	0	0	0	0
Other financing cash flows	(5,021)	(3,922)	(5,169)	(6,660)	(8,713)
Cash flow from financing	(5,021)	(3,922)	(5,169)	(6,660)	(8,713)
Chg in cash & cash eq.	(14,689)	5,600	4,312	12,568	15,364
Closing cash & cash eq.	51,625	65,841	70,153	82,721	98,085

Per Share

Y/E 30 Sep (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	28.9	35.4	48.4	62.4	81.6
Adjusted EPS	28.9	35.4	48.4	62.4	81.6
Dividend per share	8.0	10.0	12.0	12.0	12.0
Book value per share	290.7	326.1	360.0	403.7	460.8

Valuations Ratios

Y/E 30 Sep (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	10.7	8.7	7.2	6.1	5.1
EV/EBITDA	94.7	79.9	60.6	48.3	37.9
Adjusted P/E	131.3	107.1	78.5	60.9	46.5
P/BV	13.1	11.6	10.5	9.4	8.2

DuPont Analysis

Y/E 30 Sep (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	73.9	73.7	74.8	74.8	74.8
Interest burden (PBT/EBIT)	117.0	118.9	117.8	116.5	115.1
EBIT margin (EBIT/Revenue)	9.0	8.9	9.9	10.9	11.9
Asset turnover (Rev./Avg TA)	77.9	84.7	91.2	94.2	98.5
Leverage (Avg TA/Avg Equity)	1.7	1.7	1.8	1.8	1.9
Adjusted ROAE	10.4	11.5	14.1	16.3	18.9

Ratio Analysis

Y/E 30 Sep	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	32.7	22.3	21.9	18.5	21.7
EBITDA	48.3	18.1	33.2	25.8	28.5
Adjusted EPS	33.8	22.5	36.5	28.9	30.8
Profitability & Return ratios (%)					
EBITDA margin	11.3	10.9	11.9	12.6	13.3
EBIT margin	9.0	8.9	9.9	10.9	11.9
Adjusted profit margin	7.8	7.8	8.8	9.5	10.2
Adjusted ROAE	10.4	11.5	14.1	16.3	18.9
ROCE	10.7	11.9	14.6	16.9	19.5
Working capital days (days)					
Receivables	102	86	90	90	90
Inventory	49	49	50	50	50
Payables	102	91	90	90	90
Ratios (x)					
Gross asset turnover	3.8	3.4	4.0	4.6	5.5
Current ratio	1.9	1.9	1.9	1.9	1.9
Net interest coverage ratio	49.0	39.7	88.9	115.8	153.3
Adjusted debt/equity	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

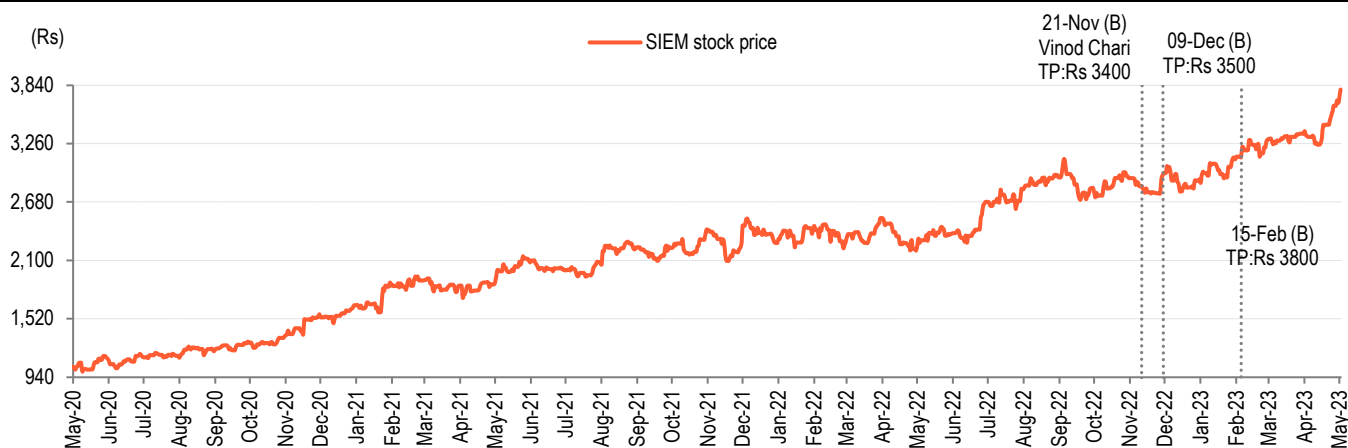
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): SIEMENS INDIA (SIEM IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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