

**HOLD**

TP: Rs 3,900 | ▲ 3%

**SIEMENS INDIA**

| Capital Goods

| 09 August 2023

## All-round growth; clarity awaited on LV motors hive-off

- **Strong execution-led revenue growth of 14% YoY together with 190bps EBITDA margin expansion in Q3**
- **Shareholders reject transfer of LV motors business to parent; we see two options: a higher sale price or termination of transfer**
- **FY24/FY25 EPS raised 3% each and TP revised to Rs 3,900 (vs. Rs 3,700) on rollover; clarity on hive-off awaited – retain HOLD**

**Robust execution across segments:** SIEM posted all-round growth in Q3FY23 (Sep Y/E) with a 14% YoY rise in revenue to Rs 48.7bn. EBITDA margin expanded 190bps YoY to 11.6% led by the smart infrastructure and mobility segments which saw respective margins rise 300bps and 170bps YoY.

**Order book strong:** Order inflows for the quarter clocked in at Rs 52.9bn, a subdued increase of 6% YoY on account of advance short-cycle product orders in the previous period. Base orders have risen 11% YoY. The company's total book as of Jun'23 remains strong at Rs 453.2bn.

**Sale of LV motors business stalled...:** SIEM had planned to sell its low-voltage (LV) and geared motors business to parent Siemens AG for a consideration of Rs 22bn. The business was valued at Rs 20.7bn-21.65bn by an independent valuer, implying multiples of 2.1x FY22 revenue, 15.5x EV/EBITDA and ~17x P/E (vs. ~84x for the blended business). However, this transaction has been rejected by minority shareholders.

**...leaving two possible options:** SIEM now has two options, in our view. It could revise the sale consideration upwards from the current offer of Rs 22bn to obtain minority shareholder approval. Alternatively, it could halt the transfer and continue to run the business as is. The outcome would largely depend on the parent's global strategy of carving out the motors business.

**Focus on emerging areas:** The company is also training its focus on new and emerging areas such as fuel cells, semiconductor battery technology and solar products, where it can leverage the parent's expertise. Mobility is doing well with more rail orders expected while the acquisition of Mass-Tech Controls' electric vehicle division should help the company make inroads in charging infrastructure.

**Maintain HOLD:** We await further developments on the LV motors sale and hence retain our HOLD rating. Our TP rises to Rs 3,900 (from Rs 3,700) as we raise our FY23/FY24 EPS estimates by 3% each to bake in the Q3 print and roll valuations to Jun'25E. We continue to value the stock at a P/E of 52x, in line with the 5Y average.

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### Key changes

| Target | Rating |
|--------|--------|
| ▲      | ◀ ▶    |

|                  |                   |
|------------------|-------------------|
| Ticker/Price     | SIEM IN/Rs 3,779  |
| Market cap       | US\$ 16.4bn       |
| Free float       | 25%               |
| 3M ADV           | US\$ 22.5mn       |
| 52wk high/low    | Rs 4,069/Rs 2,672 |
| Promoter/FPI/DII | 75%/5%/10%        |

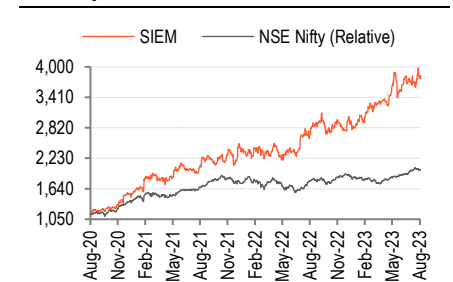
Source: NSE | Price as of 8 Aug 2023

### Key financials

| Y/E 30 Sep              | FY22A    | FY23E    | FY24E    |
|-------------------------|----------|----------|----------|
| Total revenue (Rs mn)   | 1,61,378 | 1,92,754 | 2,28,441 |
| EBITDA (Rs mn)          | 17,573   | 24,085   | 30,236   |
| Adj. net profit (Rs mn) | 12,619   | 17,740   | 22,803   |
| Adj. EPS (Rs)           | 35.4     | 49.8     | 64.1     |
| Consensus EPS (Rs)      | 35.4     | 53.0     | 63.4     |
| Adj. ROAE (%)           | 11.5     | 14.4     | 16.5     |
| Adj. P/E (x)            | 106.6    | 75.8     | 59.0     |
| EV/EBITDA (x)           | 79.5     | 58.6     | 46.9     |
| Adj. EPS growth (%)     | 22.5     | 40.6     | 28.5     |

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE



**Fig 1 – Quarterly performance**

| Y/E Sep (Rs mn)     | Q3FY23 | Q3FY22 | YoY (%) | Q2FY23 | QoQ (%)  | 9MFY23   | 9MFY22   | YoY (%) |
|---------------------|--------|--------|---------|--------|----------|----------|----------|---------|
| Revenue             | 48,732 | 42,583 | 14.4    | 48,578 | 0.3      | 1,37,461 | 1,16,098 | 18.4    |
| EBITDA              | 5,666  | 4,122  | 37.5    | 6,212  | (8.8)    | 17,870   | 12,462   | 43.4    |
| EBITDA margin (%)   | 11.6   | 9.7    | 190bps  | 12.8   | (120bps) | 13.0     | 10.7     | 230bps  |
| Depreciation        | 876    | 787    | 11.3    | 785    | 11.6     | 2,422    | 2,381    | 1.7     |
| Interest            | 43     | 44     | (2.3)   | 99     | (56.6)   | 179      | 233      | (23.2)  |
| Other Income        | 1,324  | 787    | 68.2    | 1,166  | 13.6     | 3,507    | 2,051    | 71.0    |
| PBT                 | 6,071  | 4,078  | 48.9    | 6,494  | (6.5)    | 18,776   | 11,899   | 57.8    |
| Tax                 | 1,513  | 1,053  | 43.7    | 1,776  | (14.8)   | 4,873    | 3,068    | 58.8    |
| Adjusted PAT        | 4,558  | 3,025  | 50.7    | 4,718  | (3.4)    | 13,903   | 8,831    | 57.4    |
| Exceptional item    |        |        |         |        |          |          |          |         |
| Reported PAT        | 4,558  | 3,025  | 50.7    | 4,718  | (3.4)    | 13,903   | 8,831    | 57.4    |
| Adj. PAT margin (%) | 9.4    | 7.1    | 220bps  | 9.7    | (40bps)  |          |          | 0bps    |
| EPS (Rs)            | 12.8   | 8.5    | 50.7    | 13.3   | (3.4)    | 39.1     | 24.8     | 57.4    |

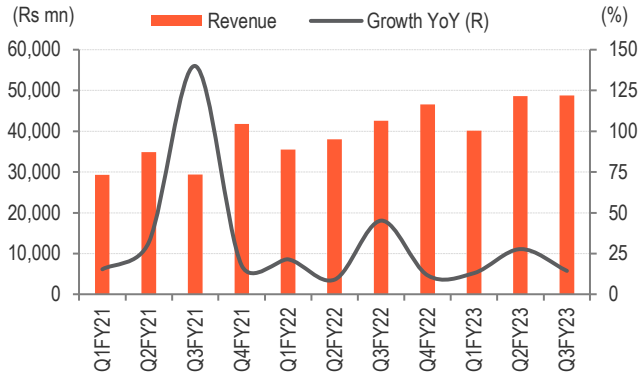
Source: Company, BOBCAPS Research

**Fig 2 – Segment-wise performance**

| Y/E Sep                | Q1FY21 | Q2FY21 | Q3FY21 | Q4FY21 | Q1FY22 | Q2FY22 | Q3FY22 | Q4FY22 | Q1FY23 | Q2FY23 | Q3FY23 |
|------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Revenue (Rs mn)</b> |        |        |        |        |        |        |        |        |        |        |        |
| Energy                 | 10,169 | 11,913 | 9,549  | 15,710 | 10,892 | 11,958 | 14,544 | 16,316 | 11,601 | 15,554 | 15,181 |
| Growth YoY (%)         | 14.4   | 16.0   | 72.2   | (0.8)  | 7.1    | 0.4    | 52.3   | 3.9    | 6.5    | 30.1   | 4.4    |
| Smart Infrastructure   | 8,821  | 11,501 | 10,717 | 15,268 | 12,870 | 14,895 | 15,060 | 16,658 | 15,197 | 17,249 | 17,206 |
| Growth YoY (%)         | 16.2   | 48.5   | 246.6  | 65.8   | 45.9   | 29.5   | 40.5   | 9.1    | 18.1   | 15.8   | 14.2   |
| Mobility               | 2,105  | 2,589  | 1,441  | 3,117  | 3,007  | 2,951  | 3,911  | 4,418  | 3,838  | 4,864  | 5,776  |
| Growth YoY (%)         | 1.0    | 1.3    | 28.5   | (5.2)  | 42.9   | 14.0   | 171.4  | 41.7   | 27.6   | 64.8   | 47.7   |
| Digital Industries     | 7,699  | 7,917  | 6,838  | 7,839  | 7,910  | 8,739  | 9,962  | 9,444  | 10,193 | 11,407 | 11,273 |
| Growth YoY (%)         | 28.3   | 50.3   | 275.9  | 23.9   | 2.7    | 10.4   | 45.7   | 20.5   | 28.9   | 30.5   | 13.2   |
| <b>EBIT (Rs mn)</b>    |        |        |        |        |        |        |        |        |        |        |        |
| Energy                 | 1,277  | 1,804  | 765    | 2,072  | 1,232  | 1,623  | 1,243  | 1,550  | 1,331  | 1,766  | 1,585  |
| Margin (%)             | 12.6   | 15.1   | 8.0    | 13.2   | 11.3   | 13.6   | 8.5    | 9.5    | 11.5   | 11.4   | 10.4   |
| Smart Infrastructure   | 663    | 988    | 166    | 729    | 600    | 899    | 1,072  | 1,283  | 1,328  | 1,947  | 1,737  |
| Margin (%)             | 7.5    | 8.6    | 1.5    | 4.8    | 4.7    | 6.0    | 7.1    | 7.7    | 8.7    | 11.3   | 10.1   |
| Mobility               | 230    | 290    | 238    | 364    | 304    | 366    | 183    | 378    | 135    | 423    | 371    |
| Margin (%)             | 10.9   | 11.2   | 16.5   | 11.7   | 10.1   | 12.4   | 4.7    | 8.6    | 3.5    | 8.7    | 6.4    |
| Digital Industries     | 802    | 686    | 315    | 527    | 666    | 992    | 828    | 1,114  | 2,427  | 1,277  | 1,081  |
| Margin (%)             | 10.4   | 8.7    | 4.6    | 6.7    | 8.4    | 11.4   | 8.3    | 11.8   | 23.8   | 11.2   | 9.6    |

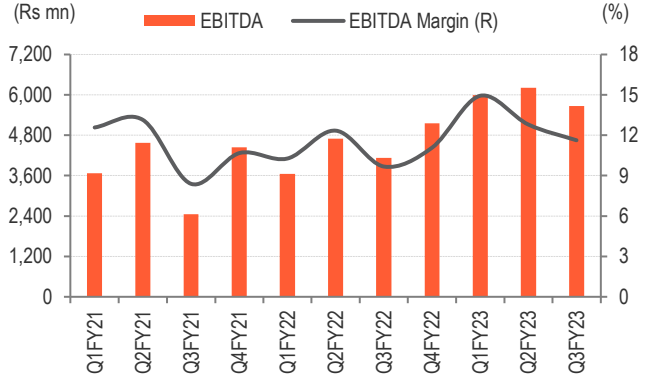
Source: Company, BOBCAPS Research

**Fig 3 – Revenue growth trend**



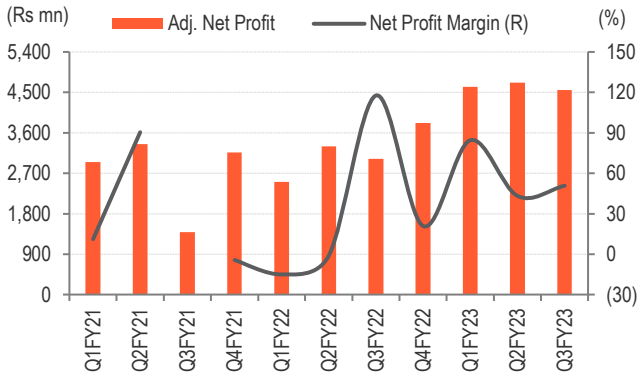
Source: Company, BOBCAPS Research

**Fig 4 – EBITDA trend**



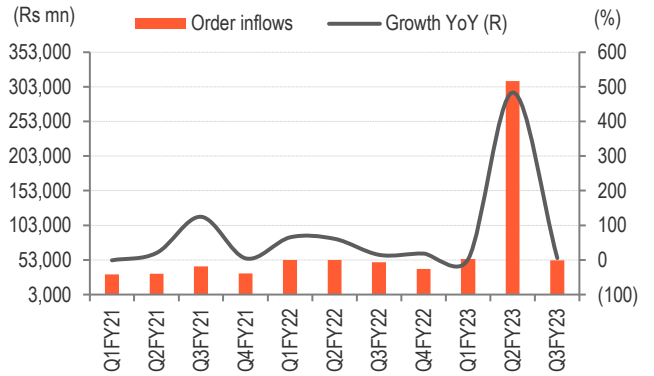
Source: Company, BOBCAPS Research

**Fig 5 – Adj. PAT trend**



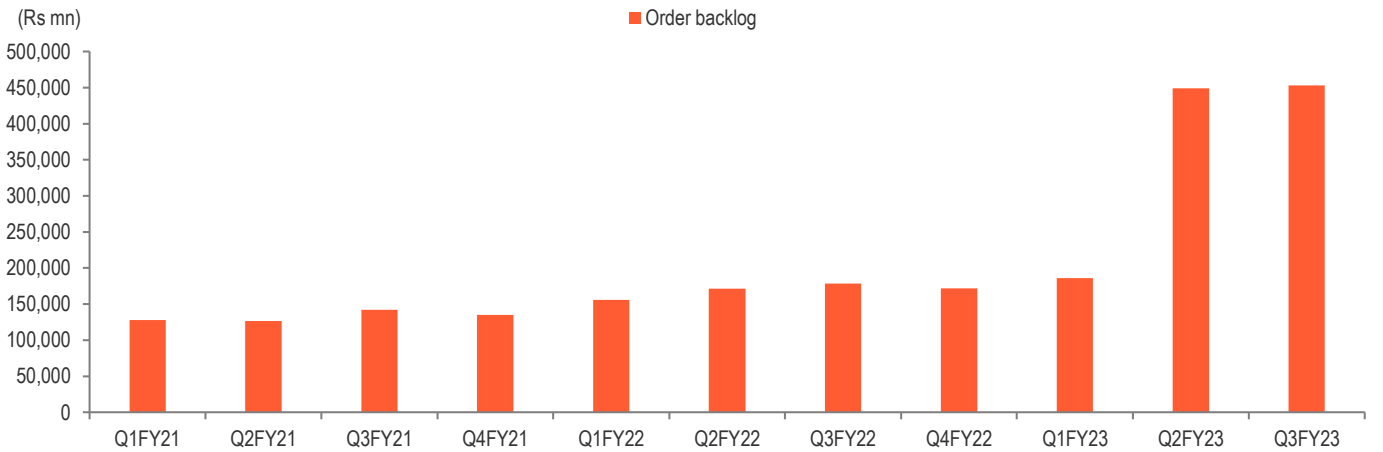
Source: Company, BOBCAPS Research

**Fig 6 – Order inflow trend**



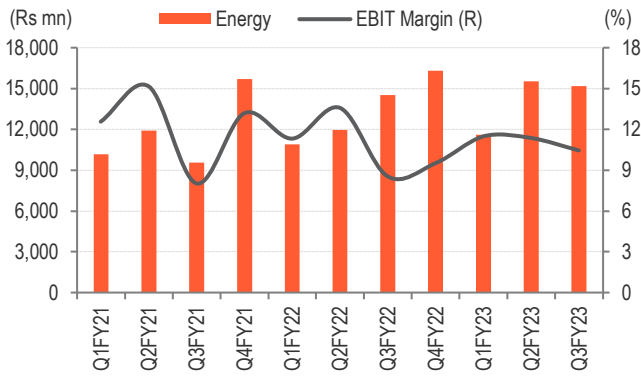
Source: Company, BOBCAPS Research

**Fig 7 – Order backlog**



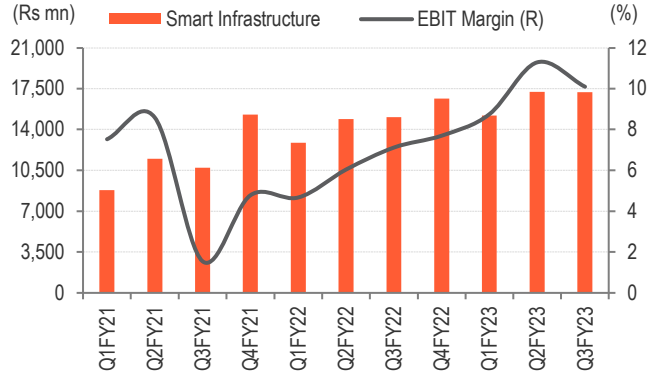
Source: Company, BOBCAPS Research

**Fig 8 – Energy segment performance**



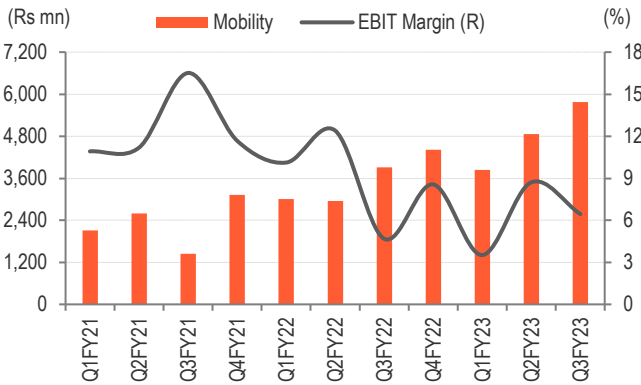
Source: Company, BOBCAPS Research

**Fig 9 – Smart infrastructure segment performance**



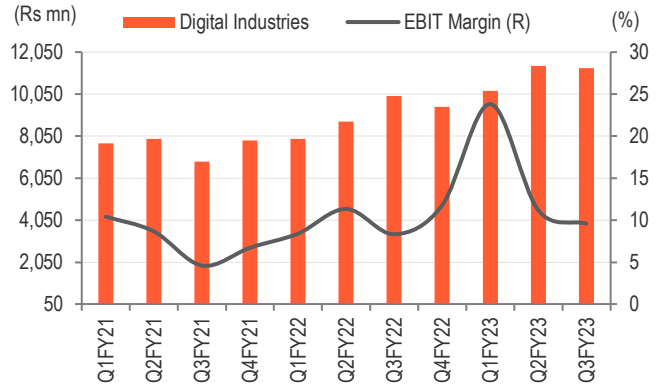
Source: Company, BOBCAPS Research

**Fig 10 – Mobility segment performance**



Source: Company, BOBCAPS Research

**Fig 11 – Digital industries segment performance**



Source: Company, BOBCAPS Research

## Valuation methodology

SIEM is benefiting from structural tailwinds in its digitalisation and automation businesses, as well as the traction mobility segment. The company is also well positioned to harness the opportunities from green energy transition. However, we await further developments on hive-off of the LV motors business and hence retain our HOLD rating. Note that management has stressed that SIEM's other divisions are strong enough to offset the loss of business should the divestment go forward and expects the company's growth trajectory to remain unaffected.

Our TP rises to Rs 3,900 (from Rs 3,700) as we raise our FY23/FY24 EPS estimates by 3% each to bake in the Q3FY23 print and roll valuations over to Jun'25E. We continue to value the stock at a P/E of 52x, in line with the five-year average.

**Fig 12 – Revised estimates**

| Y/E Sep (Rs mn)   | New      |          | Old      |          | Change (%) |       |
|-------------------|----------|----------|----------|----------|------------|-------|
|                   | FY23E    | FY24E    | FY23E    | FY24E    | FY23E      | FY24E |
| Sales             | 1,92,754 | 2,28,441 | 1,96,656 | 2,33,094 | (2.0)      | (2.0) |
| EBITDA            | 24,085   | 30,236   | 23,402   | 29,432   | 2.9        | 2.7   |
| PAT               | 17,740   | 22,803   | 17,228   | 22,202   | 3.0        | 2.7   |
| EPS               | 49.8     | 64.1     | 48.4     | 62.4     | 3.0        | 2.7   |
| EBITDA Margin (%) | 12.5     | 13.2     | 11.9     | 12.6     | 60bps      | 61bps |

Source: Company, BOBCAPS Research

## Key risks

- Above-anticipated order wins with better margins are a key upside risk to our estimates.
- Inability of the digital business to offset the loss of the LV motors business, should the sale go through, is a key downside risk.

## Sector recommendation snapshot

| Company           | Ticker      | Market Cap (US\$ bn) | Price (Rs) | Target (Rs) | Rating |
|-------------------|-------------|----------------------|------------|-------------|--------|
| ABB India         | ABB IN      | 11.5                 | 4,477      | 3,700       | HOLD   |
| AIA Engineering   | AIAE IN     | 4.1                  | 3,561      | 4,000       | BUY    |
| Cummins India     | KKC IN      | 5.8                  | 1,734      | 2,110       | BUY    |
| Hitachi Energy    | POWERIND IN | 2.2                  | 4,301      | 4,400       | HOLD   |
| KEC International | KECI IN     | 2.0                  | 633        | 630         | HOLD   |
| Larsen & Toubro   | LT IN       | 45.0                 | 2,632      | 3,000       | BUY    |
| Siemens India     | SIEM IN     | 16.4                 | 3,779      | 3,900       | HOLD   |
| Thermax           | TMX IN      | 3.7                  | 2,545      | 2,600       | HOLD   |

Source: BOBCAPS Research, NSE | Price as of 8 Aug 2023

## Financials

### Income Statement

| Y/E 30 Sep (Rs mn)         | FY21A           | FY22A           | FY23E           | FY24E           | FY25E           |
|----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Total revenue</b>       | <b>1,31,985</b> | <b>1,61,378</b> | <b>1,92,754</b> | <b>2,28,441</b> | <b>2,78,014</b> |
| EBITDA                     | 14,880          | 17,573          | 24,085          | 30,236          | 36,573          |
| Depreciation               | 2,974           | 3,171           | 3,843           | 3,963           | 4,083           |
| EBIT                       | 11,906          | 14,402          | 20,243          | 26,273          | 32,491          |
| 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          | 23,716          | 30,485          | 37,589          |
| Income taxes               | 3,629           | 4,498           | 5,977           | 7,682           | 9,473           |
| Extraordinary items        | 0               | 0               | 0               | 0               | 0               |
| Min. int./Inc. from assoc. | 0               | 0               | 0               | 0               | 0               |
| <b>Reported net profit</b> | <b>10,298</b>   | <b>12,619</b>   | <b>17,740</b>   | <b>22,803</b>   | <b>28,117</b>   |
| Adjustments                | 0               | 0               | 0               | 0               | 0               |
| <b>Adjusted net profit</b> | <b>10,298</b>   | <b>12,619</b>   | <b>17,740</b>   | <b>22,803</b>   | <b>28,117</b>   |

### Balance Sheet

| Y/E 30 Sep (Rs mn)              | FY21A           | FY22A           | FY23E           | FY24E           | FY25E           |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Accounts payables               | 36,715          | 40,401          | 47,528          | 56,328          | 68,551          |
| Other current liabilities       | 31,702          | 39,498          | 46,472          | 55,076          | 67,028          |
| Provisions                      | 0               | 0               | 0               | 0               | 0               |
| Debt funds                      | 25              | 0               | 0               | 0               | 0               |
| Other liabilities               | 8,160           | 5,013           | 5,988           | 7,096           | 8,636           |
| Equity capital                  | 712             | 712             | 712             | 712             | 712             |
| Reserves & surplus              | 1,02,838        | 1,15,466        | 1,28,948        | 1,46,415        | 1,68,122        |
| Shareholders' fund              | 1,03,550        | 1,16,178        | 1,29,660        | 1,47,127        | 1,68,834        |
| <b>Total liab. and equities</b> | <b>1,80,152</b> | <b>2,01,090</b> | <b>2,29,649</b> | <b>2,65,628</b> | <b>3,13,049</b> |
| Cash and cash eq.               | 51,625          | 65,841          | 72,158          | 86,763          | 1,03,657        |
| Accounts receivables            | 36,827          | 37,860          | 47,528          | 56,328          | 68,551          |
| Inventories                     | 17,867          | 21,650          | 26,405          | 31,293          | 38,084          |
| Other current assets            | 25,132          | 27,499          | 34,326          | 40,681          | 49,509          |
| Investments                     | 0               | 0               | 0               | 0               | 0               |
| Net fixed assets                | 32,647          | 31,090          | 28,747          | 26,285          | 23,702          |
| CWIP                            | 338             | 510             | 609             | 722             | 879             |
| Intangible assets               | 0               | 0               | 0               | 0               | 0               |
| Deferred tax assets, net        | 0               | 0               | 0               | 0               | 0               |
| Other assets                    | 15,716          | 16,640          | 19,875          | 23,555          | 28,667          |
| <b>Total assets</b>             | <b>1,80,152</b> | <b>2,01,090</b> | <b>2,29,649</b> | <b>2,65,628</b> | <b>3,13,049</b> |

### Cash Flows

| Y/E 30 Sep (Rs mn)                 | FY21A           | FY22A          | FY23E          | FY24E          | FY25E           |
|------------------------------------|-----------------|----------------|----------------|----------------|-----------------|
| <b>Cash flow from operations</b>   | <b>14,222</b>   | <b>9,875</b>   | <b>14,434</b>  | <b>24,126</b>  | <b>28,532</b>   |
| Capital expenditures               | (1,071)         | (1,313)        | (1,500)        | (1,500)        | (1,500)         |
| Change in investments              | (13,623)        | 4,419          | (99)           | (113)          | (157)           |
| Other investing cash flows         | (9,196)         | (3,459)        | (2,261)        | (2,571)        | (3,572)         |
| <b>Cash flow from investing</b>    | <b>(23,890)</b> | <b>(353)</b>   | <b>(3,860)</b> | <b>(4,184)</b> | <b>(5,228)</b>  |
| 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)        | (4,258)        | (5,336)        | (6,411)         |
| <b>Cash flow from financing</b>    | <b>(5,021)</b>  | <b>(3,922)</b> | <b>(4,258)</b> | <b>(5,336)</b> | <b>(6,411)</b>  |
| <b>Chg in cash &amp; cash eq.</b>  | <b>(14,689)</b> | <b>5,600</b>   | <b>6,317</b>   | <b>14,606</b>  | <b>16,893</b>   |
| <b>Closing cash &amp; cash eq.</b> | <b>51,625</b>   | <b>65,841</b>  | <b>72,158</b>  | <b>86,763</b>  | <b>1,03,657</b> |

### Per Share

| Y/E 30 Sep (Rs)      | FY21A | FY22A | FY23E | FY24E | FY25E |
|----------------------|-------|-------|-------|-------|-------|
| Reported EPS         | 28.9  | 35.4  | 49.8  | 64.1  | 79.0  |
| Adjusted EPS         | 28.9  | 35.4  | 49.8  | 64.1  | 79.0  |
| Dividend per share   | 8.0   | 10.0  | 12.0  | 15.0  | 18.0  |
| Book value per share | 290.7 | 326.1 | 364.0 | 413.1 | 474.0 |

### Valuations Ratios

| Y/E 30 Sep (x) | FY21A | FY22A | FY23E | FY24E | FY25E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales       | 10.6  | 8.7   | 7.3   | 6.2   | 5.2   |
| EV/EBITDA      | 94.3  | 79.5  | 58.6  | 46.9  | 39.2  |
| Adjusted P/E   | 130.7 | 106.6 | 75.8  | 59.0  | 47.9  |
| P/BV           | 13.0  | 11.6  | 10.4  | 9.1   | 8.0   |

### 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 | 117.2 | 116.0 | 115.7 |
| EBIT margin (EBIT/Revenue)   | 9.0   | 8.9   | 10.5  | 11.5  | 11.7  |
| Asset turnover (Rev./Avg TA) | 77.9  | 84.7  | 89.5  | 92.2  | 96.1  |
| Leverage (Avg TA/Avg Equity) | 1.7   | 1.7   | 1.8   | 1.8   | 1.8   |
| Adjusted ROAE                | 10.4  | 11.5  | 14.4  | 16.5  | 17.8  |

### Ratio Analysis

| Y/E 30 Sep                                   | FY21A | FY22A | FY23E | FY24E | FY25E |
|--|-------|-------|-------|-------|-------|
| <b>YoY growth (%)</b>                        |       |       |       |       |       |
| Revenue                                      | 32.7  | 22.3  | 19.4  | 18.5  | 21.7  |
| EBITDA                                       | 48.3  | 18.1  | 37.1  | 25.5  | 21.0  |
| Adjusted EPS                                 | 33.8  | 22.5  | 40.6  | 28.5  | 23.3  |
| <b>Profitability &amp; Return ratios (%)</b> |       |       |       |       |       |
| EBITDA margin                                | 11.3  | 10.9  | 12.5  | 13.2  | 13.2  |
| EBIT margin                                  | 9.0   | 8.9   | 10.5  | 11.5  | 11.7  |
| Adjusted profit margin                       | 7.8   | 7.8   | 9.2   | 10.0  | 10.1  |
| Adjusted ROAE                                | 10.4  | 11.5  | 14.4  | 16.5  | 17.8  |
| ROCE   | 10.7  | 11.9  | 14.9  | 17.0  | 18.3  |
| <b>Working capital days (days)</b>           |       |       |       |       |       |
| Receivables                                  | 102   | 86    | 90    | 90    | 90    |
| Inventory                                    | 49    | 49    | 50    | 50    | 50    |
| Payables                                     | 102   | 91    | 90    | 90    | 90    |
| <b>Ratios (x)</b>                            |       |       |       |       |       |
| Gross asset turnover                         | 3.8   | 3.4   | 4.0   | 4.5   | 5.4   |
| Current ratio                                | 1.9   | 1.9   | 1.9   | 1.9   | 1.9   |
| Net interest coverage ratio                  | 49.0  | 39.7  | 92.0  | 119.4 | 147.7 |
| 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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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

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

**BUY** – Expected return >+15%

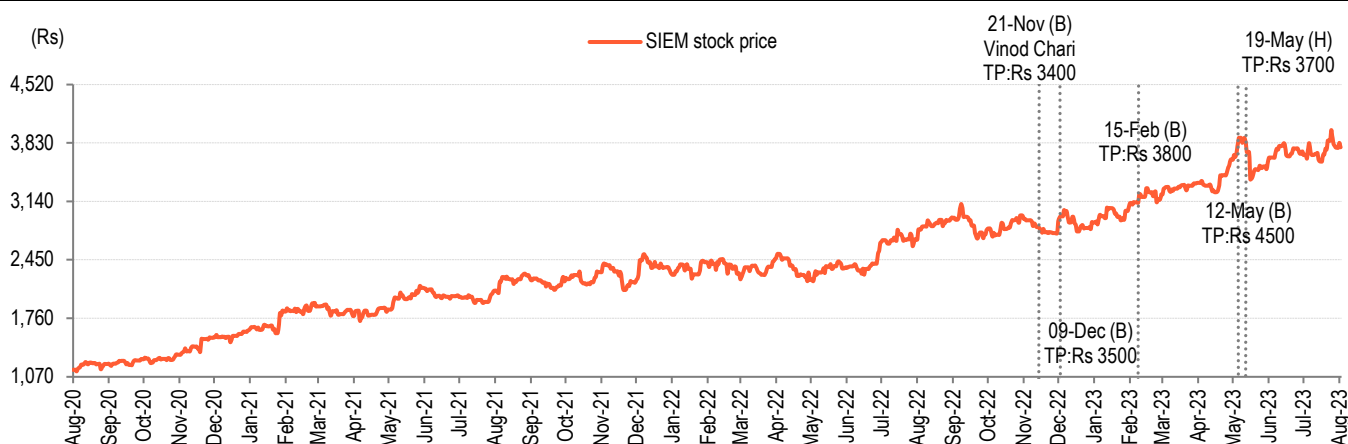
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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