

November 21, 2019

Analyst Meet Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	1,687		1,722	
Sales (Rs. m)	149,899	165,863	149,482	168,429
% Chng.	0.3	(1.5)		
EBITDA (Rs. m)	16,189	17,962	17,116	19,267
% Chng.	(5.4)	(6.8)		
EPS (Rs.)	37.6	42.2	39.0	44.4
% Chng.	(3.7)	(5.0)		

Key Financials - Standalone

Y/e Sep	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	127,953	137,672	149,899	165,863
EBITDA (Rs. m)	13,273	14,903	16,189	17,962
Margin (%)	10.4	10.8	10.8	10.8
PAT (Rs. m)	8,724	10,898	13,370	15,016
EPS (Rs.)	24.5	30.6	37.6	42.2
Gr. (%)	18.0	24.9	22.7	12.3
DPS (Rs.)	7.0	7.0	10.4	11.7
Yield (%)	0.5	0.5	0.7	0.8
RoE (%)	10.9	12.6	14.1	14.4
RoCE (%)	14.1	14.7	14.7	15.0
EV/Sales (x)	4.0	3.6	3.3	3.0
EV/EBITDA (x)	38.6	33.5	30.7	27.3
PE (x)	63.0	50.4	41.1	36.6
P/BV (x)	6.6	6.1	5.5	5.0

Key Data

SIEM.BO | SIEM IN

52-W High / Low	Rs.1,717 / Rs.900
Sensex / Nifty	40,575 / 11,968
Market Cap	Rs.550bn/ \$ 7,655m
Shares Outstanding	356m
3M Avg. Daily Value	Rs.1914.43m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	2.06
Domestic Institution	11.82
Public & Others	11.12
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(6.4)	30.4	68.2
Relative	(9.3)	25.3	45.9

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Capex Recovery remains elusive, strong balance sheet to support valuations

Quick Pointers:

- Digital/automation solutions to drive growth, core business witnessing challenges from near to medium term
- Private capex remains far elusive, operating expenditure continues in select pockets.

Siemens Ltd.'s Annual (FY19) analyst meeting indicated of weakness in its core business from a near-to-medium term perspective on the back of delay in capex recovery across the segments and markets. However, Digitalization/Automation business continues witness a traction at a gradual pace. While there are little optimism as far as large orders are concern, SIEM continues to focus on base orders (80-90% of order backlog for FY19). Management has increased its focus on states capex due to slowdown witnessed by center government, which we believe can take more time due to weak financials of states. While there are visible signs of slowdown in the near-term, we remain positive on SIEM from a long-term positive as the company remain focused on 1) Digitization and localization 2) Creating smart infrastructure and 3) Increasing customer by leveraging its strong balance sheet (more than Rs50 bn of cash) and offering innovative financing. SIEM will continue to focus on Automation, Signaling and Electrification (Railways) in the Mobility division (10% of sales). We have cut our earnings estimates by 4%/5% for FY20/21E on the back of diminishing order backlog and lack of any large order visibility. We expect SIEM to deliver earnings CAGR of 20% over the next two years (FY19-21E). The stock is currently trading at 41/37x FY20/21E earnings. We maintain BUY with revised target price of Rs1687(Rs1722) on 40x FY21E as we believe strong balance sheet will support the valuations.

EBITDA margin impacted due to inventory provisioning and forex loss:

4QFY19 sales were up 5.7% YoY at Rs40 bn (PLe Rs34 bn) mainly driven by growth in Gas & Power/Portfolio of companies/Digital Industries segment which grew 12%/17.6%/4% YoY. Mobility business reported flat YoY growth while Smart Infra de-grew by 9% YoY. EBITDA margin contracted by 80bps YoY at 9.8% (PLe ~11%) in 4QFY19 on the back of one-time combined impact of inventory provisioning and forex loss of Rs0.6 bn. EBITDA was down 3% YoY at Rs4.1 bn. Other income was up 85% YoY at Rs1 bn (includes Profit on transfer of property amounting Rs473 mn). PBT came at Rs4.8 bn in 4QFY19 up 10% YoY (PLe. Rs4.3 bn). Tax rate for the quarter came at 31.5% (one-time DTL reversal) compared to 36% in 4QFY18. Hence PAT for the quarter came to Rs3.3 bn, up 18% YoY (PLe. Rs3.5 bn). For FY19 sales was up 7.5% YoY at Rs137 bn driven by stable growth across all businesses. PAT stood at Rs11 bn, up 8% YoY.

Near term outlook remains cautious: Order Inflow for the quarter was down 14% YoY at Rs32 bn due to competition, lower pipeline of orders and lack of order finalization. Order book stood at ~Rs119bn (down ~4% YoY), offers revenue visibility for 0.9x FY19 revenues. SIEM highlighted slowdown in capex related ordering by its customers, both public and private. As per management, liquidity is becoming a concern in the industry, with payments being delayed and enough inventory in the system. The management continues to focus on driving its short term and digitalization businesses with a clear focus on profitable growth and cash management.

Strong balance sheet with cash of more than Rs50 bn: SIEM has strong balance sheet with net cash of more than of Rs50 bn. NWC days have improved from 51 days to 43 days in FY19 due to strong effort in collections.

Exhibit 1: Q4FY19 Result Overview (Rs mn)

Y/e March	Q4FY19	Q4FY18	YoY gr. (%)	Q3FY19	QoQ gr. (%)	FY20E	FY19	YoY gr. (%)
Net Revenue	41,288	39,392	4.8	31,984	29.1	149,899	137,672	8.9
EBITDA	4,056	4,186	(3.1)	3,537	14.7	16,189	14,903	8.6
<i>EBITDA Margin (%)</i>	<i>9.8</i>	<i>10.6</i>		<i>11.1</i>		<i>10.8</i>	<i>10.8</i>	
Other Income	1,414	764	85.1	825	71.4	4,002	3,517	13.8
Depreciation	558	507	10.1	512	9.0	2,241	2,182	2.7
Interest	86	51	68.6	2	4,200.0	123	117	5.0
Exceptional items	-	-		-				
Profit before Tax	4,826	4,392	9.9	3,848	25.4	17,826	16,121	10.6
Tax	1,520	1,600	(5.0)	1,367		4,457	5,600	
Reported PAT	3,306	2,792	18.4	2,481	33.3	13,370	10,521	27.1
Adjusted PAT	3,306	2,792	18.4	2,481	33.3	13,370	10,521	27.1
<i>Net Margin (%)</i>	<i>8.0</i>	<i>7.1</i>		<i>7.8</i>		<i>8.9</i>	<i>7.6</i>	
Adjusted EPS	9.3	7.8		7.0		37.6	29.6	

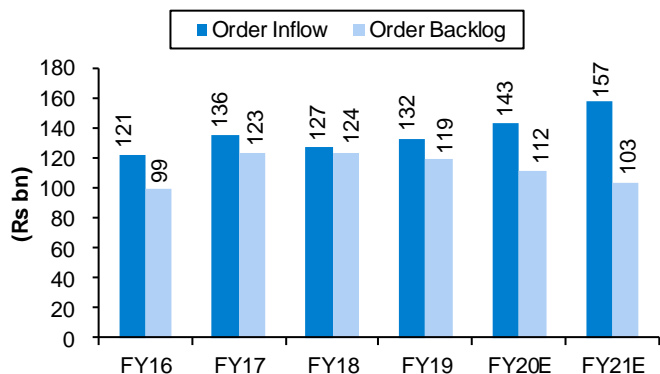
Source: Company, PL

Exhibit 2: Segmental Performance (Rs mn)

Y/e March	Q4FY19	Q4FY18	YoY gr. (%)	Q3FY19	QoQ gr. (%)
Revenue					
Power and gas	3,852	3,439	12.0	4,513	-14.7
Energy management	13,793	13,136	5.0	13,711	0.6
Building Technologies	1,376	1,251	10.0	1,330	3.5
Mobility	2,239	2,132	5.0	3,380	-33.8
Digital factory	7,045	6,290	12.0	7,060	-0.2
Process Industries and Drives	6,032	5,484	10.0	5,884	2.5
Others	395	359	10.0	340	16.1
Total	34,731	32,091	8.2	36,218	-4.1
Less Inter Segment	-	1,361	NA	722	NA
Net Revenue	34,731	30,730	13.0	35,496	-2.2
EBIT Margin					
Power and gas	16.3	19.5		16.3	
Energy management	11.0	5.7		10.7	
Building Technologies	8.5	8.5		5.1	
Mobility	8.0	7.6		18.0	
Digital factory	9.5	9.8		9.9	
Process Industries and Drives	4.0	2.2		-1.0	
Others	3.0	27.0		2.4	

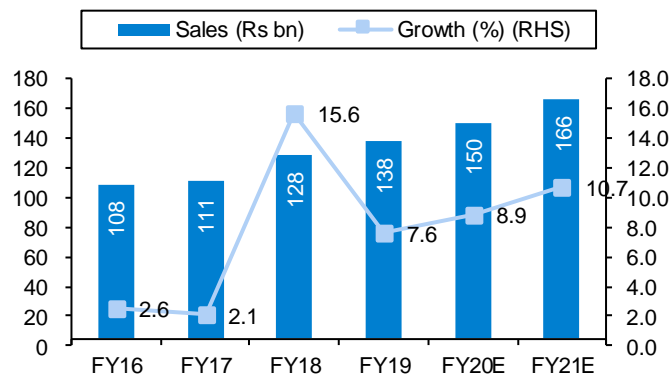
Source: Company, PL

Exhibit 3: Order Inflow & Backlog



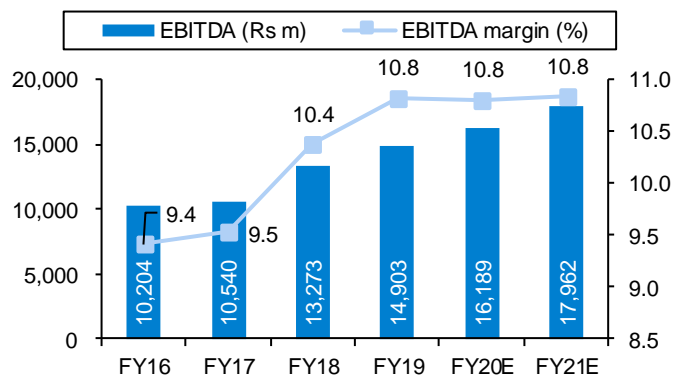
Source: Company, PL

Exhibit 4: Revenue Trend



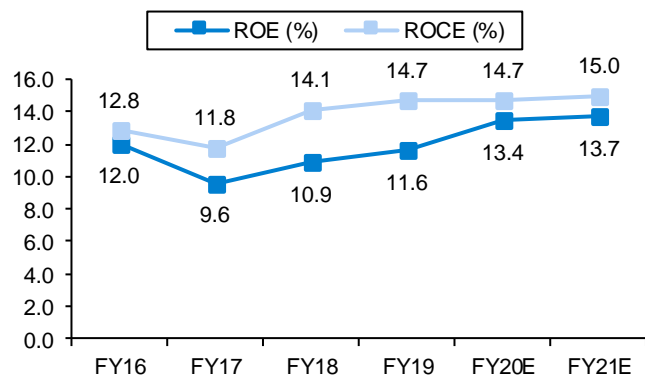
Source: Company, PL

Exhibit 5: EBITDA margins have improved over FY16-19



Source: Company, PL

Exhibit 6: ROE/ROCE have improved over FY16-19



Source: Company, PL

Analyst Meet Key Takeaways:

- Gas and power-** In FY19 sales grew by 5% YoY at Rs49.5 bn mainly driven by services business (relatively high margin business) and small turbines which offset decline in large projects. Order inflow grew by 7% YoY. Capex remains elusive for traditional power generation and large gas business. Higher T&D (above 220 KV) is also likely to witness slowdown.
- Smart Infrastructure-** This business saw growth in Hospitality, commercial offices and Data centers. Utilities saw slowdown due to increased competition and headwinds faced in larger projects. Thus overall sales grew by 1% YoY. Order Inflow grew 7% YoY at Rs39 bn.
- Digital Industries-** In FY19 sales grew 16% YoY led by growth in F&B and Pharma. For the quarter sales grew by 4% YoY impacted by slowdown in Auto sector in H2FY19. Profitability was impacted due to cost rationalization.
- Mobility-** Sales in 4QFY19 remained muted due to aggressive pricing leading to reduction in order intake volume. For FY19 revenue grew by 13% YoY led by growth in execution from order backlog. Going ahead management remains positive on this segment due to large opportunity from signaling and electrification.

- **Portfolio of Companies-** For the quarter sales was up 18% YoY on account of pickup in wind industry mainly mechanical drives. For FY19 sales were up 30% YoY. But profitability for the year de-grew by 7% due to one-time cost of rationalization and inventory provisioning of Rs1 bn.
- In 4QFY19 base orders were down 8.9% YoY due to deferment of various orders mainly in the Mobility segment. For FY19, base orders grew 5.5% YoY.
- Digitalization has been the key focus area which is seen gaining traction where volumes are growing. Currently have over 105 used cases in India.
- For SIEM 30% business comes from government. With ordering slowdown witnessed by center, SIEM has moved to selective states and has decided to take step by step approach for order intake.
- HVDC project which was received 2 years back is on track and ~75% of execution has been achieved.
- Current profitability in the Digitalization business is low, which is expected to improve as it achieves critical masses.

Financials

Income Statement (Rs m)

Y/e Sep	FY18	FY19	FY20E	FY21E
Net Revenues	127,953	137,672	149,899	165,863
YoY gr. (%)	15.6	7.6	8.9	10.7
Cost of Goods Sold	57,072	61,474	65,956	73,146
Gross Profit	70,881	76,198	83,943	92,718
Margin (%)	55.4	55.3	56.0	55.9
Employee Cost	14,573	16,111	17,988	19,904
Other Expenses	13,831	12,936	16,040	17,532
EBITDA	13,273	14,903	16,189	17,962
YoY gr. (%)	25.9	12.3	8.6	11.0
Margin (%)	10.4	10.8	10.8	10.8
Depreciation and Amortization	1,977	2,182	2,241	2,299
EBIT	11,296	12,721	13,947	15,663
Margin (%)	8.8	9.2	9.3	9.4
Net Interest	82	117	123	129
Other Income	2,801	3,517	4,002	4,487
Profit Before Tax	14,015	16,121	17,826	20,021
Margin (%)	11.0	11.7	11.9	12.1
Total Tax	5,291	5,223	4,457	5,005
Effective tax rate (%)	37.8	32.4	25.0	25.0
Profit after tax	8,724	10,898	13,370	15,016
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	8,724	10,898	13,370	15,016
YoY gr. (%)	18.0	24.9	22.7	12.3
Margin (%)	6.8	7.9	8.9	9.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	8,724	10,898	13,370	15,016
YoY gr. (%)	18.0	24.9	22.7	12.3
Margin (%)	6.8	7.9	8.9	9.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	8,724	10,898	13,370	15,016
Equity Shares O/s (m)	356	356	356	356
EPS (Rs)	24.5	30.6	37.6	42.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Sep	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	12,488	11,911	12,235	12,550
Tangibles	12,454	11,896	12,220	12,535
Intangibles	34	15	15	15
Acc: Dep / Amortization	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	12,488	11,911	12,235	12,550
Tangibles	12,454	11,896	12,220	12,535
Intangibles	34	15	15	15
Capital Work In Progress	625	583	583	583
Goodwill	282	280	282	282
Non-Current Investments	5,200	1,764	1,921	2,125
Net Deferred tax assets	2,697	2,442	2,442	2,442
Other Non-Current Assets	9,594	10,242	11,152	12,339
Current Assets				
Investments	-	-	-	-
Inventories	11,504	11,197	13,142	14,541
Trade receivables	37,469	38,841	43,122	47,714
Cash & Bank Balance	36,916	50,019	52,788	58,915
Other Current Assets	3,887	2,389	4,518	4,999
Total Assets	143,363	153,583	167,645	184,665
Equity				
Equity Share Capital	712	712	712	712
Other Equity	82,277	89,799	98,717	108,734
Total Network	82,989	90,511	99,429	109,446
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	2,153	2,644	2,697	2,751
Other non current liabilities	606	474	498	523
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	30,582	33,052	35,729	39,535
Other current liabilities	27,033	26,902	29,291	32,411
Total Equity & Liabilities	143,363	153,583	167,644	184,665

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Sep	FY18	FY19	FY20E	FY21E
PBT	14,015	16,594	17,826	20,021
Add. Depreciation	1,977	2,182	2,241	2,299
Add. Interest	82	117	123	129
Less Financial Other Income	2,801	3,517	4,002	4,487
Add. Other	(1,345)	(4,764)	(4,002)	(4,487)
Op. profit before WC changes	14,729	14,129	16,189	17,962
Net Changes-WC	(7,885)	4,973	(4,758)	(2,181)
Direct tax	(5,846)	(6,185)	(4,457)	(5,005)
Net cash from Op. activities	998	12,917	6,974	10,776
Capital expenditures	(1,791)	(336)	(2,565)	(2,615)
Interest / Dividend Income	2,690	3,378	4,002	4,487
Others	(2,645)	(14,570)	(1,068)	(1,392)
Net Cash from Inv. activities	(1,746)	(11,528)	368	480
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	(753)	(845)
Dividend paid	(3,000)	(3,005)	(3,698)	(4,154)
Interest paid	(53)	(111)	(123)	(129)
Others	-	-	-	-
Net cash from Fin. activities	(3,053)	(3,116)	(4,574)	(5,128)
Net change in cash	(3,801)	(1,727)	2,769	6,127
Free Cash Flow	(908)	11,720	4,409	8,161

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Sep	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Net Revenue	28,071	35,496	31,984	41,288
YoY gr. (%)	15.5	8.1	4.1	4.8
Raw Material Expenses	18,444	24,408	20,901	29,475
Gross Profit	9,627	11,088	11,083	11,813
Margin (%)	34.3	31.2	34.7	28.6
EBITDA	3,065	4,100	3,537	4,056
YoY gr. (%)	12.5	27.0	17.0	(3.1)
Margin (%)	10.9	11.6	11.1	9.8
Depreciation / Depletion	532	571	512	558
EBIT	2,533	3,529	3,025	3,498
Margin (%)	9.0	9.9	9.5	8.5
Net Interest	2	24	2	86
Other Income	877	830	825	1,414
Profit before Tax	3,408	4,335	3,848	4,826
Margin (%)	12.1	12.2	12.0	11.7
Total Tax	1,128	1,532	1,367	1,520
Effective tax rate (%)	33.1	35.3	35.5	31.5
Profit after Tax	2,280	2,803	2,481	3,306
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,280	2,803	2,481	3,306
YoY gr. (%)	19.7	27.6	21.4	18.4
Margin (%)	8.1	7.9	7.8	8.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,280	2,803	2,481	3,306
YoY gr. (%)	19.7	27.6	21.4	18.4
Margin (%)	8.1	7.9	7.8	8.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,280	2,803	2,481	3,306
Avg. Shares O/s (m)	356	356	356	356
EPS (Rs)	6.4	7.9	7.0	9.3

Source: Company Data, PL Research

Key Financial Metrics

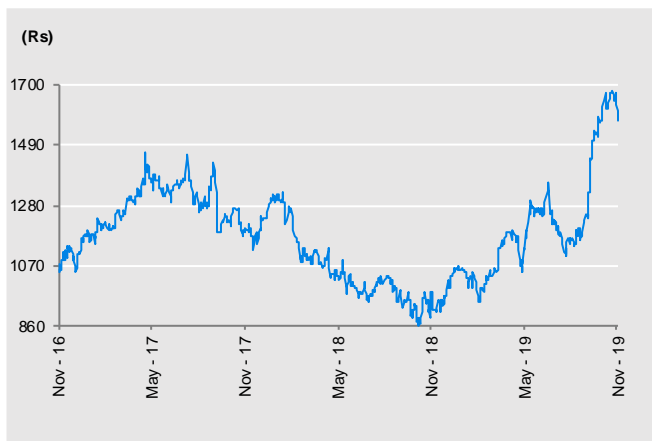
Y/e Sep	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	24.5	30.6	37.6	42.2
CEPS	30.1	36.7	43.9	48.6
BVPS	233.1	254.2	279.3	307.4
FCF	(2.6)	32.9	12.4	22.9
DPS	7.0	7.0	10.4	11.7
Return Ratio(%)				
RoCE	14.1	14.7	14.7	15.0
ROIC	16.3	23.4	24.8	25.8
RoE	10.9	12.6	14.1	14.4
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.6)	(0.5)	(0.5)
Net Working Capital (Days)	52	45	50	50
Valuation(x)				
PER	63.0	50.4	41.1	36.6
P/B	6.6	6.1	5.5	5.0
P/CEPS	51.3	42.0	35.2	31.7
EV/EBITDA	38.6	33.5	30.7	27.3
EV/Sales	4.0	3.6	3.3	3.0
Dividend Yield (%)	0.5	0.5	0.7	0.8

Source: Company Data, PL Research

Key Operating Metrics

Y/e Sep	FY18	FY19	FY20E	FY21E
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Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Oct-19	BUY	1,722	1,526
2	7-Aug-19	BUY	1,263	1,101
3	4-Jul-19	Accumulate	1,263	1,358
4	28-May-19	Accumulate	1,263	1,253
5	16-May-19	Accumulate	1,263	1,130
6	9-Apr-19	Accumulate	1,221	1,145
7	5-Apr-19	Accumulate	1,146	1,147

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Reduce	1,514	1,498
2	Apar Industries	Accumulate	646	521
3	Bharat Electronics	Hold	118	113
4	BHEL	Hold	60	55
5	Cummins India	Hold	543	540
6	Engineers India	BUY	156	111
7	GE T&D India	Reduce	150	167
8	Kalpataru Power Transmission	BUY	662	437
9	KEC International	BUY	375	265
10	Larsen & Toubro	BUY	1,800	1,432
11	Power Grid Corporation of India	BUY	224	192
12	Siemens	BUY	1,722	1,526
13	Thermax	Accumulate	1,143	1,069
14	Triveni Turbine	Accumulate	142	104
15	Voltamp Transformers	BUY	1,610	1,073

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%

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