

RESEARCH
BOB ECONOMICS RESEARCH | MONTHLY CHARTBOOK

India facing headwinds

SIEMENS INDIA | TARGET: Rs 3,500 | +18% | BUY

Buoyant outlook

SUMMARY
INDIA ECONOMICS: MONTHLY CHARTBOOK

Risks of a global recession have increased, as shown by macro data points from both US (housing sector) and China (trade, production, PMIs). European economy is also facing headwinds owing to ongoing energy crisis. Weak global demand has led to cooling down of commodity prices and hence inflation. Thus, US Fed is also expected to go in for smaller rate hikes starting Dec'22. On the domestic front, RBI has already toned down the pace of rate hikes, though flagging upside risks to inflation. Elevated prices and interest rates have impacted demand and signs of slowdown are visible in electricity demand, digital payments, non-oil-non-gold imports and electronic imports. Even GST collection have eased a tad. Going ahead, Fed rate path will be a key driver for INR and rates.

[Click here for the full report.](#)
SIEMENS INDIA

- Q4 in line; management now focused on aggressive growth, in a shift from consolidation
- Laggardly mobility segment gaining traction, with locomotive orders estimated to drive a 13% CAGR over 10Y
- Upbeat outlook across segments; we raise our target P/E to 57x (vs. 55x) for a new TP of Rs 3,500 (vs. Rs 3400) – SIEM remains our top pick

[Click here for the full report.](#)
Daily macro indicators

Indicator	07-Dec	08-Dec	Chg (%)
US 10Y yield (%)	3.42	3.48	6bps
India 10Y yield (%)	7.27	7.29	2bps
USD/INR	82.48	82.43	0.1
Brent Crude (US\$/bbl)	77.2	76.2	(1.3)
Dow	33,598	33,781	0.5
Hang Seng	18,815	19,450	3.4
Sensex	62,411	62,571	0.3
India FII (US\$ mn)	06-Dec	07-Dec	Chg (\$ mn)
FII-D	54.1	21.4	(32.7)
FII-E	(31.2)	(167.5)	(136.2)

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



India facing headwinds

Risks of a global recession have increased, as shown by macro data points from both US (housing sector) and China (trade, production, PMIs). European economy is also facing headwinds owing to ongoing energy crisis. Weak global demand has led to cooling down of commodity prices and hence inflation. Thus, US Fed is also expected to go in for smaller rate hikes starting Dec'22. On the domestic front, RBI has already toned down the pace of rate hikes, though flagging upside risks to inflation. Elevated prices and interest rates have impacted demand and signs of slowdown are visible in electricity demand, digital payments, non-oil-non-gold imports and electronic imports. Even GST collection have eased a tad. Going ahead, Fed rate path will be a key driver for INR and rates.

Subdued demand: Consumption spending disappointed in Q2FY23, with moderation in growth on the back of base effect. In Nov'22, early trends such as electricity demand and digital payments are suggesting some cooling-off in the economy. Dip in non-oil–non-gold imports as well as electronic imports also point towards a demand slowdown. Agriculture sector has been showcasing signs of resilience, supported by pick up in rabi sowing (higher compared with last year).

Centre's spending boost: Centre's fiscal deficit (% of GDP, 12MMA basis), rose to 6.9% as of Oct'22, up from 6.5% as of Sep'22, as spending picked up substantially. Total expenditure was up by 17.4% as of Oct'22 (FYTD basis), compared with 12.2% growth seen in H1. This was supported by 61.5% jump in capex (+49.5% in H1) and 10.2% rise in revenue spending (+6% in H1). On the

income side, gross tax revenues improved a tad, rising by 18% as of Oct'22 versus 17.6% increase noted in H1. Within this, while direct tax collections improved (25.9% versus 23.5%), indirect tax collections eased (11% versus 11.8%). Dip in revenue from customs and excise as prices cooled down, could be a reason. A key cause of concern on the revenue side is also the weakness in disinvestment receipts. We expect overall expenditure to remain high going forward (capex is at 54.6% of BE and revenue expenditure is at 54.3%) in order to order meet budgetary targets and on account of increased subsidy burden.

India's 10Y yield on a downswing: India's 10Y yield fell by 17bps in Nov'22. This was in line with fall in US 10Y yield by 44bps on account of Fed Chair's dovish comments regarding the pace of future rate hike. Moderation in inflation print in major BRICS economies also led to a fall in global yields. On domestic front, however, RBI was slightly hawkish and gave cautionary call to be watchful of future inflation prints. Governor's statement clearly indicated that RBI will be cognizant of next few CPI data and the forces driving it, before taking any call on rates. We do feel that there is yet another 25bps rate hike on the cards before a pause to support the growth cycle of the economy.

Fed policy to drive INR: In Nov'22, INR gained 1.7% which marked its first monthly gain this year. A weaker dollar and FPI inflows supported the gains in INR. It erased much of these gains in Dec'22 and fell by 1.2%, amidst uncertainty over Fed's future rate hike. However, with oil prices falling to levels before the Russia-Ukraine conflict, INR should get some comfort. DXY is also likely to remain subdued as Fed eases the pace of rate hikes going forward.

Note: The source for all exhibits is 'CEIC and Bank of Baroda' unless otherwise specified

BUY
 TP: Rs 3,500 | ▲ 18%

SIEMENS INDIA

| Capital Goods

| 09 December 2022

Buoyant outlook

- Q4 in line; management now focused on aggressive growth, in a shift from consolidation
- Laggardly mobility segment gaining traction, with locomotive orders estimated to drive a 13% CAGR over 10Y
- Upbeat outlook across segments; we raise our target P/E to 57x (vs. 55x) for a new TP of Rs 3,500 (vs. Rs 3400) – SIEM remains our top pick

Vinod Chari | Tanay Rasal
 Nilesh Patil
 research@bobcaps.in

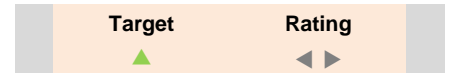
Q4 in line: SIEM's Q4FY22 print (Y/E Sep) was largely in line with our estimates. We note an execution uptick in the smart infrastructure and digital industries segments over the past two quarters, with significant margin traction in both segments – a key positive. C&S Electric which has been lossmaking achieved EBIT breakeven in Q4.

Optimistic outlook: Management's commentary suggests a shift from business consolidation and expansion over the past decade to focused, aggressive growth (in infrastructure, renewables and digitalisation). This is reflected in average order inflows of Rs 49bn over the past four quarters (vs. Rs 36bn over Q1-Q4FY21). The mobility segment, a relative laggard, has gained traction due to a renewed thrust on rail capex in the country. Per management, growth in smart infrastructure and digital industries would be led by new-age businesses, energy is likely to gain traction in FY23, and a rise in digitalisation, decarbonisation and energy efficiency solutions will spur growth.

Mobility to gain traction: The Indian Railways' (IR) renewed emphasis on rail capex, mainly toward electrification and rolling stocks, is expected to drive traction for the mobility segment, after a muted 5% CAGR over FY16-FY22. We believe a new trainset and increased freight movement would require a complete overhaul of the electrification line, opening up an added growth opportunity. Besides IR's Vande Bharat program & Locomotive program is an added opportunity. SIEM is also the lowest bidder (L1) for a ~Rs 200bn 9000HP locomotive order which we estimate will fuel a 13% CAGR in mobility revenue over 10Y.

Maintain BUY: Though an aggressive quest for growth coupled with investments in portfolio and manufacturing capacity is expected to tell on margins, we reiterate SIEM as our top pick in the capital goods sector. In our view, the company is the best play on upcoming smart capex given a broad portfolio that not only caters to sectors evolving toward Industry 4.0 but also harnesses the green energy transition theme. Given the expected traction across business segments in general and mobility in particular, we raise our target Sep'24E P/E multiple from 55x to 57x – a 27% premium to the stock's 5Y mean, leading to a revised TP of Rs 3,500 (earlier Rs 3,400).

Key changes



Ticker/Price	SIEM IN/Rs 2,967
Market cap	US\$ 12.8bn
Free float	25%
3M ADV	US\$ 12.2mn
52wk high/low	Rs 3,139/Rs 2,150
Promoter/FPI/DII	75%/5%/10%

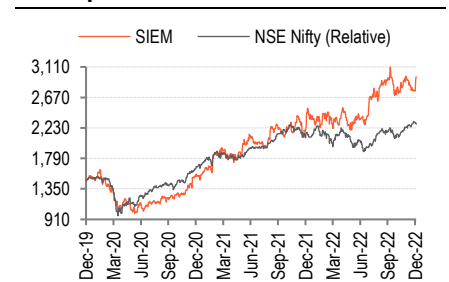
Source: NSE | Price as of 9 Dec 2022

Key financials

Y/E 30 Sep	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,61,378	1,96,656	2,32,550
EBITDA (Rs mn)	17,573	23,402	28,847
Adj. net profit (Rs mn)	12,619	17,228	21,764
Adj. EPS (Rs)	35.4	48.4	61.1
Consensus EPS (Rs)	35.4	47.3	61.9
Adj. ROAE (%)	11.5	14.1	16.0
Adj. P/E (x)	83.7	61.3	48.5
EV/EBITDA (x)	63.0	47.9	39.0
Adj. EPS growth (%)	22.5	36.5	26.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA ("US") OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.

Disclaimer

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.

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017. BOBCAPS CIN Number: U65999MH1996GOI098009.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Other disclaimers

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an "as is" basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the "Losses") which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

Distribution into the United Kingdom ("UK"):

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd ("MSL") who is authorised and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom (MSL and its affiliates are collectively referred to as "MAYBANK"). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the "Order"), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as "relevant persons").

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

No distribution into the US:

This report will not be distributed in the US and no US person may rely on this communication.

Other jurisdictions:

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.