

BUY

TP: Rs 3,500 | ▲ 14%

SIEMENS INDIA

| Capital Goods

| 24 January 2023

Annual report highlights: Primed for accelerated growth

- Well positioned to benefit from emerging opportunities in digitalisation and sustainable solutions
- Mobility division seeing a resurgence due to rail capex with new 9000HP locomotive order a feather in its cap; C&S Electric turns a corner
- Balance sheet robust with net cash of Rs 64bn. SIEM remains one of our preferred capex plays; maintain BUY, TP Rs 3,500

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Key takeaways from our analysis of SIEM's FY22 (Y/E Sep) annual report:

Poised for accelerated growth: We believe SIEM is strategically positioned to harness the boom in demand for digitalisation and sustainable solutions. The company, having undergone a decade of consolidation, is now in a phase of expedited expansion. Its mobility division, which had been underperforming, has seen a resurgence due to the renewed focus on rail capex in the country. Per management, the smart infrastructure and digital industries will be propelled by cutting-edge enterprises, with the energy sector also expected to do well this year.

C&S Electric synergies to kick in: The acquisition of C&S Electric, primarily aimed at tapping the market for low-voltage products in India and overseas, is gaining momentum. C&S revenue stood at Rs 12.2bn in FY22 (vs. Rs 12.4bn in FY19 pre-acquisition), while PAT stood at Rs 163mn (vs. Rs 527mn). Management acknowledged that integration costs have temporarily hurt margins but remains optimistic on eventual normalisation as a result of synergies and efficiencies that will be realised in future.

Xcelerator a complement to MindSphere: SIEM has unveiled Xcelerator, a new open digital business platform that complements its existing MindSphere. Aimed at supporting small & medium enterprises, Xcelerator looks to accelerate digital transformation by providing scalability, design flexibility and integration capabilities.

Balance sheet steady: Cash and cash equivalents increased to Rs 64bn, up 30% YoY, with net debt/equity at -0.3x. ROIC/ROE for the year stood at 12%/11%.

Maintain BUY: SIEM remains the best play on upcoming smart capex with a broad portfolio mix that not only caters to sectors evolving toward Industry 4.0, but also harnesses the green energy transition theme with its stronghold in building and grid electrification. We pencil in a revenue/EBITDA/PAT CAGR of 20%/28%/31% over FY22-FY24 and maintain BUY with a TP of Rs 3,500, valuing the stock at 57x Sep'24E EPS, 25% premium to the 5Y mean.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	SIEM IN/Rs 3,059
Market cap	US\$ 13.4bn
Free float	25%
3M ADV	US\$ 14.1mn
52wk high/low	Rs 3,139/Rs 2,150
Promoter/FPI/DII	75%/5%/10%

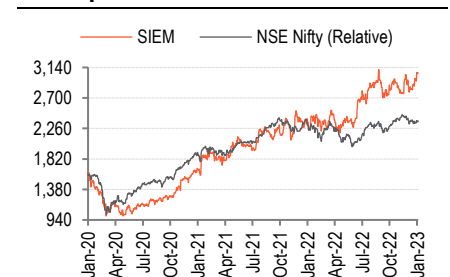
Source: NSE | Price as of 23 Jan 2023

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)	86.3	63.2	50.0
EV/EBITDA (x)	64.9	49.3	40.2
Adj. EPS growth (%)	22.5	36.5	26.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

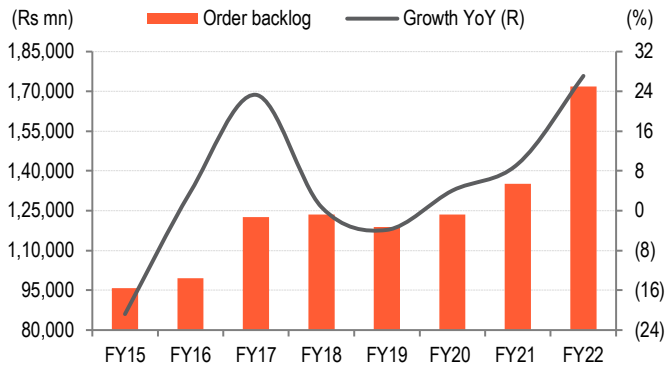


Source: NSE



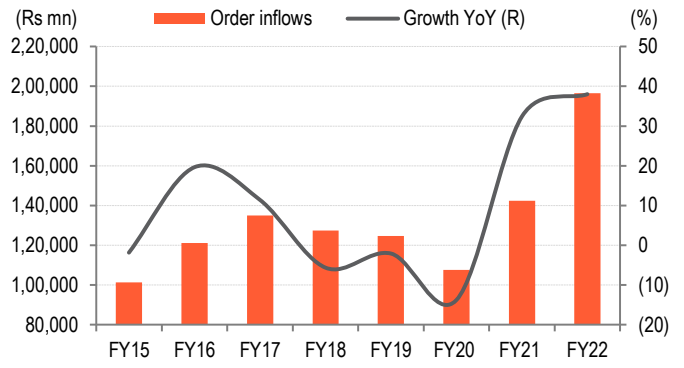
Focus charts

Fig 1 – Order backlog



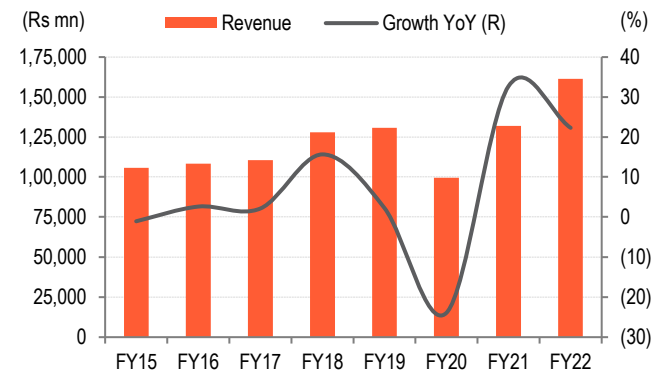
Source: Company, BOBCAPS Research

Fig 2 – Order inflows



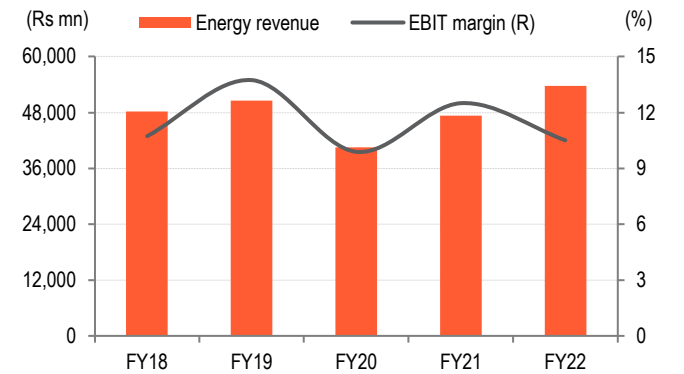
Source: Company, BOBCAPS Research

Fig 3 – Revenue



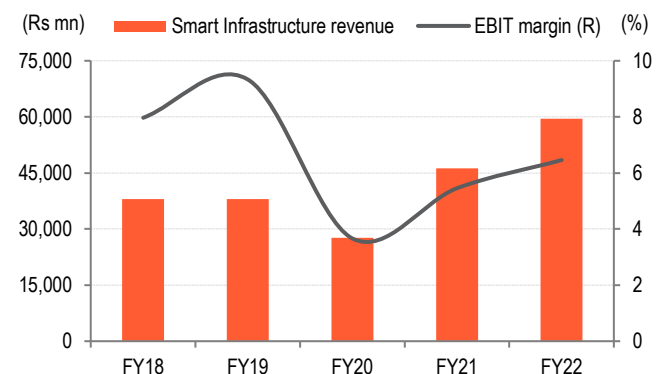
Source: Company, BOBCAPS Research

Fig 4 – Energy business revenue and margins



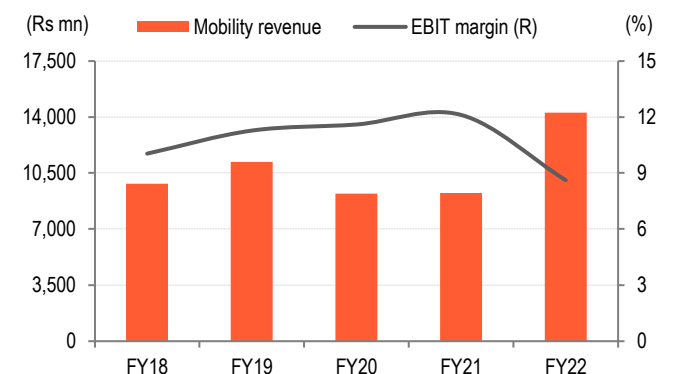
Source: Company, BOBCAPS Research

Fig 5 – Smart infrastructure revenue and margins



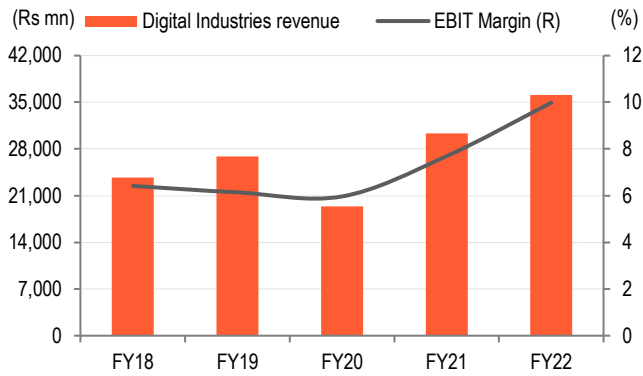
Source: Company, BOBCAPS Research

Fig 6 – Mobility revenue and margins



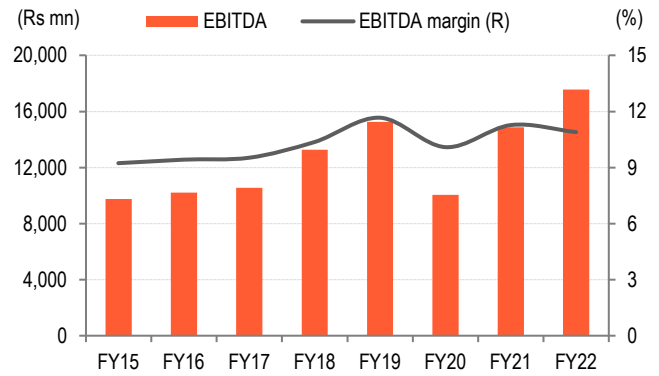
Source: Company, BOBCAPS Research

Fig 7 – Digital industries revenue and margins



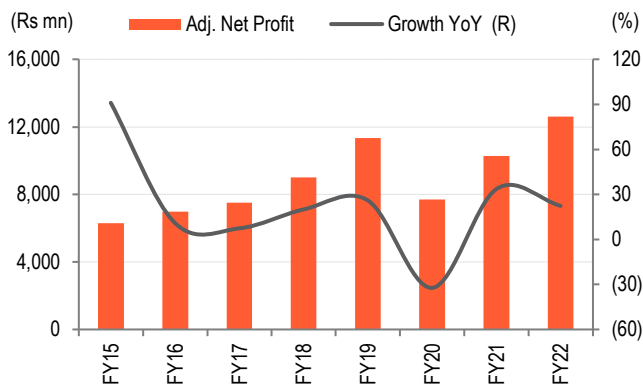
Source: Company, BOBCAPS Research

Fig 8 – EBITDA



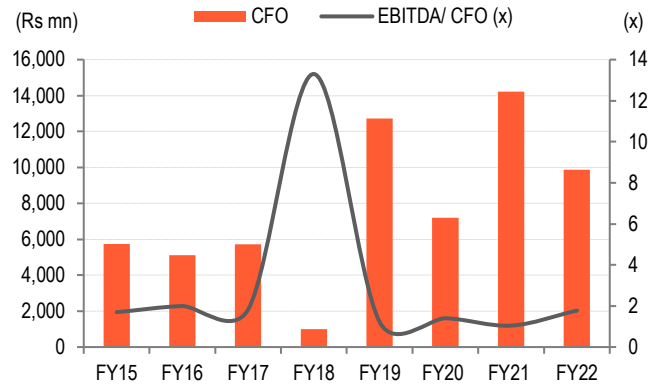
Source: Company, BOBCAPS Research

Fig 9 – Net profit



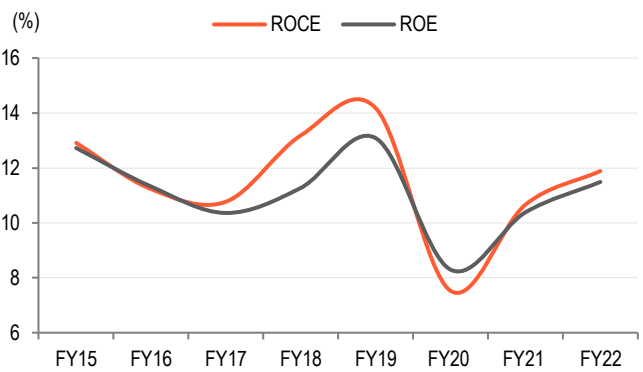
Source: Company, BOBCAPS Research

Fig 10 – Cash flow from operations



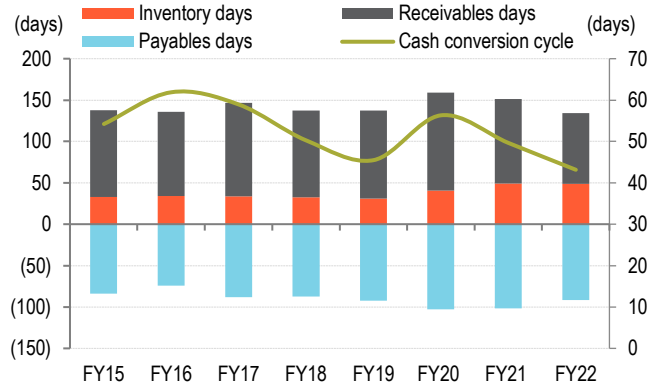
Source: Company, BOBCAPS Research

Fig 11 – Return ratios



Source: Company, BOBCAPS Research

Fig 12 – Working capital cycle



Source: Company, BOBCAPS Research

Annual report takeaways

Business outlook

SIEM indicated that it is well positioned to capitalise on opportunities in the digitalisation and sustainability solutions market, driven by a growing interest in decarbonisation and energy efficiency. Customers continue to prioritise digitalisation across industries, including automotive, energy distribution, chemicals, steel, food and beverage, commercial buildings, data centres, and pharmaceuticals.

SIEM's comprehensive range of solutions is geared toward high-growth sectors and includes digital twin technology, predictive maintenance, cybersecurity, closed loop simulation, transport planning systems, power plant flexibilisation, intralogistics, e-mobility and waste heat recovery. The company indicated that it has witnessed increased demand for digital solutions, railways, digital grid, and power transmission and distribution, as well as higher interest from customers in e-mobility, decarbonisation, waste heat recovery, and energy storage.

The launch of Siemens Xcelerator, an open digital business platform, is aimed at enabling customers to accelerate their digital transformation by partnering with SIEM. Overall, management is confident that the company's focus on digitalisation and sustainability solutions positions it well to achieve sustainable, profitable growth in FY23.

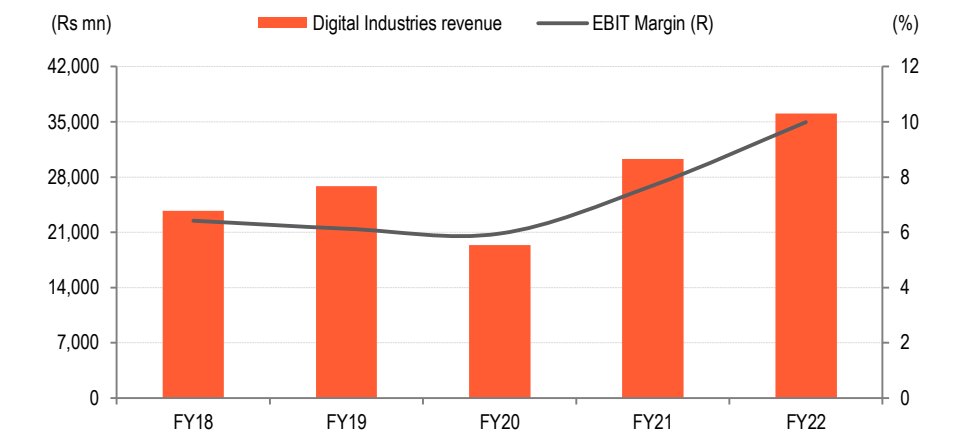
Digital industries

SIEM's digital industries business grew 19% to Rs 36bn during FY22. Per the company, FY22 saw a marked increase in the use of automated and digital technologies across industries, including the automotive, metallurgical, cement, pharmaceutical, and food and beverage industries, as well as infrastructure. Additionally, new areas of growth emerged, including those pertaining to intralogistics, aeronautics, and tunnel automation.

SIEM highlighted its successful implementation of a Digital Twin solution during the year, which was executed with the aim of optimising the paint processes at MG Motor. Furthermore, the company's digital industries business was instrumental in automating the inaugural indigenous greenfield Covid-19 vaccine production facility, as well as providing automation for cranes within a steel production facility.

Going forward, management expects India's self-reliance initiatives, including Make in India, Production-Linked Incentive schemes and investments by the private sector, to drive the adoption of cutting-edge technologies across the country. Small and medium enterprises, in particular, are expected to embrace digitalisation to stay competitive. Per SIEM, the future looks bright for technologies such as artificial intelligence, edge computing, 5G, the industrial internet of things (IIoT), and cybersecurity solutions.

Fig 13 – SIEM: Digital industries growth trend



Source: Company, BOBCAPS Research

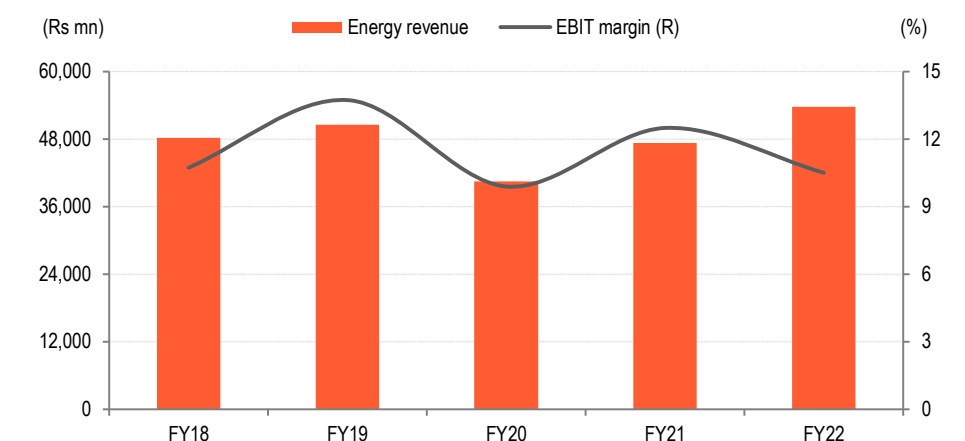
Energy

SIEM's energy business posted revenue of Rs 53.7bn in FY22, growing at 13%. The rising demand for energy generation and transmission is primarily driven by industrial captive power plants, investments in clean energy, and efforts to enhance capacity and stabilise power grids through the integration of renewable energy sources. SIEM's energy business is thus focused developing innovative technologies that promote decarbonisation in industries, digitalisation, and the stabilisation of power grids. Additionally, the company is investing in hydrogen and storage solutions.

Per management, a notable achievement of the company's energy business was its ability to quickly repair a 600MW generator at a captive power plant in Jharsuguda, Odisha, during an emergency outage, reducing generation loss. The business is also playing a key role in decarbonisation efforts at one of India's largest aluminium companies, with an overhaul of aging turbines expected to result in a reduction of ~100,000t of carbon emissions per year.

Looking ahead, SIEM expects the energy business to benefit from the government's goal of reaching 500GW of renewable energy capacity by 2030, implying that grid expansion and stabilisation will require a significant technological boost.

Fig 14 – Energy business growth trend



Source: Company, BOBCAPS Research

Smart infrastructure

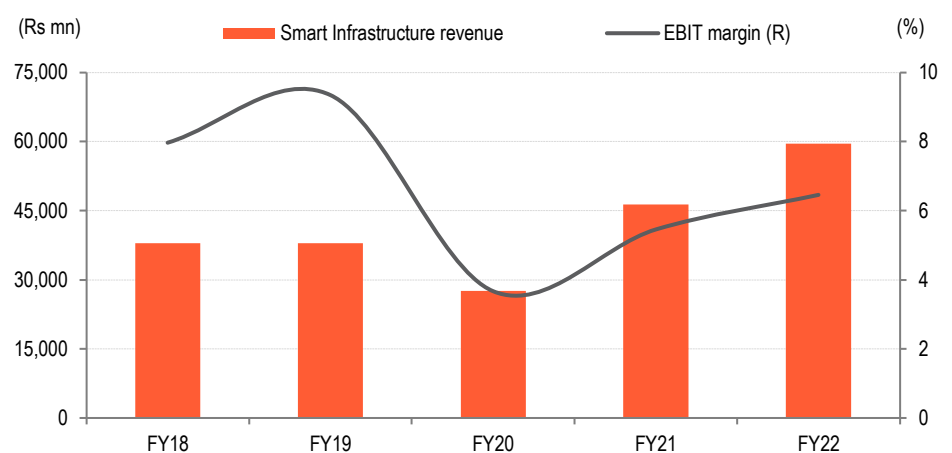
SIEM's smart infrastructure (SI) business witnessed a surge in demand for its solutions across sectors in FY22, such as (i) grid infrastructure – including smart grids and smart metering projects driven by utilities modernising their networks and e-mobility projects; (ii) industrial infrastructure – with industries such as metals and cement increasing demand for electrification equipment; and (iii) urban infrastructure – driven by data centres, transportation, and the need for sustainable buildings. Consequently, revenue grew 28% to Rs 59bn in FY22.

Highlights for the SI business include receipt of orders for the electrification of a data centre, a meter data management system for an advanced metering infrastructure solution for a state electricity distributor, a turnkey 33kV switchyard at a deep all-weather port, and a large networking and infrastructure automation package order for a metro rail project.

Additionally, the company entered into a Memorandum of Understanding with Tata Power Delhi Distribution to jointly provide training for the latter's power distribution workforce. The SI business also continues to execute e-mobility projects to meet the growing demand for electric charging infrastructure.

Going forward, reforms and modernisation of power utilities and distribution companies, rising e-charging infrastructure requirements and the growth in urban infrastructure represent large opportunities for the SI business. The company expects the business to be the biggest beneficiary of digitalisation, where decisions based on data and analytics can help make energy systems and processes in buildings and industries more efficient and sustainable.

Fig 15 – Smart infrastructure business growth trend



Source: Company, BOBCAPS Research

Mobility

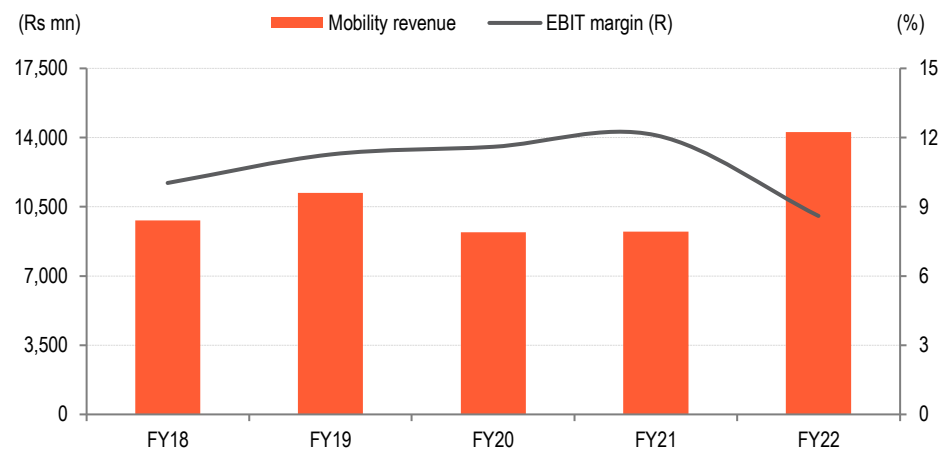
SIEM's mobility business has been supporting the Indian Railways' vision of complete electrification, enhanced haulage capability, and building high-technology systems in line with the government's Make in India initiative.

During FY22, a consortium comprising the company, Siemens AG, Siemens Mobility GmbH, and Alstom Transport India was awarded the contract for the electrical and mechanical system works of the Pune IT City Metro Rail project. The order size for the company was ~Rs 9bn and includes project management, turnkey electrification, signalling, communications, and depot works.

SIEM also secured another order as part of a consortium with Siemens Mobility GmbH from Rail Vikas Nigam for signalling and telecommunications of the Kavi Subhash-Biman Bandar Corridor and Joka-Esplanade Metro Corridor (16km) of Kolkata Metro Line 3 & 6. Additionally, it won an order for providing train control management systems and electrics for nine Vande Bharat Express trainsets and installing electronic interlocking.

Going forward, SIEM, in collaboration with Indian Railways and Metro operators, aims to optimise rail network throughput and asset availability. With the National Rail Plan 2030 laying the groundwork for a future-ready rail system, investments in infrastructure and products are expected to accelerate. Innovation in research, design, manufacturing, and digitalisation will continue to be critical drivers of Indian Railways' transformation. While the company's mobility business participates in many of these opportunities, the timing of their tendering has a large impact on its order position.

Fig 16 – Mobility business growth trend



Source: Company, BOBCAPS Research

Financial snapshot

Fig 17 – EBITDA

Particulars (Rs mn)	FY21	FY22
Revenue from contracts with customers	1,23,280	1,45,881
EBITDA as reported	14,311	16,070
EBITDA margin	11.6%	11.0%
Included:		
FX gains/ losses	26	(1,307)
Commodity gains/ losses	339	(771)
Total	365	(2,078)
Adjusted EBITDA	13,946	18,148
Adj. EBITDA Margin (%)	11.3%	12.4%

Source: Company, BOBCAPS Research

Fig 18 – C&S Electric

Particulars (Rs mn)	H2FY21 (6M)	FY22
Share capital	443	443
Reserves and Surplus	3,739	3,927
Total assets	7,708	7,521
Total Liabilities	3,527	3,151
Revenue	5,932	12,198
PBT	163	263
Tax	86	100
PAT	77	163
Proposed Dividend	-	133

Source: Company, BOBCAPS Research

Fig 19 – Contingent liabilities

Particulars (Rs mn)	FY18	FY19	FY20	FY21	FY22
Commitments	808	868	973	697	694
Contingent liabilities					
Income tax (excluding interest)	5,081	5,081	4821	7,358	7,185
Excise, goods and services tax (GST), service tax and sales tax liabilities, disputes	7,559	7,568	6569	6,927	6,678
Customs liabilities, under dispute	120	120	120	122	120
Claims against the Company not acknowledged as debts	365	365	899	911	882
Total	13,933	14,002	13,382	16,015	15,559
Net worth	82,989	90,494	94,920	1,03,475	1,16,102
As a % of Networth	16.8	15.5	14.1	15.5	13.4

Source: Company, BOBCAPS Research

Fig 20 – Working capital management

Particulars (Rs mn)	FY18	FY19	FY20	FY21	FY22
Inventory	11,504	11,197	11,152	17,867	21,650
Days	33	31	41	49	49
Receivables	36,711	38,156	32,226	36,827	37,860
Days	105	106	118	102	86
Payables	30,582	33,052	28,028	36,715	40,401
Days	87	92	103	102	91
Cash conversion cycle	50	45	56	50	43

Source: Company, BOBCAPS Research

Fig 21 – Remuneration to auditors

Particulars (Rs mn)	FY18	FY19	FY20	FY21	FY22
As auditor					
- Audit fees	21	23	21	30	36
- Tax Audit fees	6	-	6	8	8
In other capacity					
- Other Audit related services	16	12	2	5	5
- Reimbursement of expenses	4	2	1		1
Total	47	37	30	43	50
As a % of revenue	0.04	0.03	0.03	0.03	0.03

Source: Company, BOBCAPS Research

Fig 22 – Remuneration of KMP

Particulars (Rs mn)	Sunil Mathur (MD & CEO)	Daniel Spindler (CFO)
Salary	23	12
Allowances	26	12
Perquisites	29	6
Performance Linked Incentive	75	25
Contribution to Provident Fund and NPS*	3	
Compensation under Stock Option Plan(s) of Siemens AG	31	4
Commission		
Total	188	60
As a % of Employee expense	1.0	0.3

Source: Company, BOBCAPS Research

Fig 23 – Trend in other expense

Particulars (Rs mn)	FY18	FY19	FY20	FY21	FY22
Exchange loss / (gains), net *	1,191	(777)	232	(16)	1,305
as a % of sales	0.9	(0.6)	0.2	0.0	0.8
Travel and conveyance	1,248	1,513	801	683	1,206
	1.0	1.2	0.8	0.5	0.7
Software license fees and other information technology related costs	1,597	1,385	1,951	2,157	1,863
	1.2	1.1	2.0	1.6	1.2
Repairs	1184	1403	871	1266	1884
	0.9	1.1	0.9	1.0	1.2
Legal and professional	1,545	1,808	1,489	1,524	1,547
	1.2	1.4	1.5	1.2	1.0
Advertising and publicity	238	381	148	43	148
	0.2	0.3	0.1	0.0	0.1
Research and development expenditure	147	49	62	146	211
	0.1	0.0	0.1	0.1	0.1
Bank guarantee commission / bank charges	274	274	305	283	312
	0.2	0.2	0.3	0.2	0.2
Bad debts	101	75	150	72	53
	0.1	0.1	0.2	0.1	0.0
CSR expenditure	195	241	282	291	291
	0.2	0.2	0.3	0.2	0.2
Provision for doubtful debts and advances, net	257	378	354	(194)	580
	0.2	0.3	0.4	(0.1)	0.4
License fees	-	-	555	932	1,204
	-	-	0.6	0.7	0.7
Commodity derivatives loss / (gains)	-	-	-	(339)	1,023
	-	-	0.0	(0.3)	0.6
Miscellaneous expenses	5854	6,206	3139	4024	4858
	4.6	4.7	3.2	3.0	3.0
Total other expense	13,831	12,936	10,339	10,872	16,485

Source: Company, BOBCAPS Research

Valuation methodology

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.

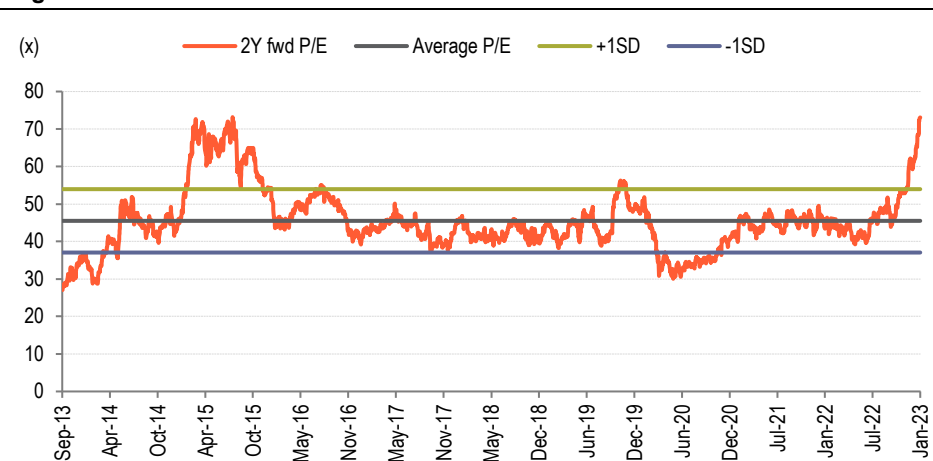
Given the expected traction across business segments in general and mobility in particular, we reiterate BUY on SIEM with an unchanged TP of Rs 3,500, based on 57x Sep'24E EPS, 25% premium to the five-year mean.

Fig 24 – Key assumptions

Particulars (Rs mn)	FY23E	FY24E
Sales	1,96,656	2,32,550
EBITDA	23,402	28,847
PAT	17,228	21,764
EPS (Rs)	48.4	61.1
EBITDA Margin (%)	11.9	12.4

Source: Company, BOBCAPS Research

Fig 25 – P/E 2Y fwd



Key risks

Key downside risks to our estimates are:

- declining share of private capex in the order mix,
- major decrease in profitability of the smart infrastructure and digital industries business segments, and
- increase in royalty.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ABB India	ABB IN	7.7	2,948	3,100	HOLD
AIA Engineering	AIAE IN	2.8	2,452	3,100	BUY
Cummins India	KKC IN	4.9	1,427	1,300	HOLD
Hitachi Energy	POWERIND IN	1.7	3,173	3,600	BUY
KEC International	KECI IN	1.5	471	500	BUY
Larsen & Toubro	LT IN	38.5	2,234	2,390	BUY
Siemens India	SIEM IN	13.4	3,059	3,500	BUY
Thermax	TMX IN	2.9	1,973	2,100	HOLD

Source: BOBCAPS Research, NSE | Price as of 23 Jan 2023

Financials

Income Statement

Y/E 30 Sep (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Total revenue	99,465	1,31,985	1,61,378	1,96,656	2,32,550
EBITDA	10,036	14,880	17,573	23,402	28,847
Depreciation	2,521	2,974	3,171	3,843	3,963
EBIT	7,515	11,906	14,402	19,559	24,884
Net interest inc./(exp.)	295	243	363	220	220
Other inc./(exp.)	3,149	2,264	3,078	3,694	4,432
Exceptional items	0	0	0	0	0
EBT	10,369	13,927	17,117	23,033	29,097
Income taxes	2,674	3,629	4,498	5,804	7,332
Extraordinary items	9	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	7,686	10,298	12,619	17,228	21,764
Adjustments	9	0	0	0	0
Adjusted net profit	7,695	10,298	12,619	17,228	21,764

Balance Sheet

Y/E 30 Sep (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Accounts payables	28,028	36,715	40,401	48,490	57,341
Other current liabilities	30,717	31,702	39,498	47,413	56,067
Provisions	0	0	0	0	0
Debt funds	0	25	0	0	0
Other liabilities	4,937	8,160	5,013	6,109	7,224
Equity capital	712	712	712	712	712
Reserves & surplus	94,208	1,02,838	1,15,466	1,27,526	1,42,761
Shareholders' fund	94,920	1,03,550	1,16,178	1,28,238	1,43,473
Total liab. and equities	1,58,602	1,80,152	2,01,090	2,30,250	2,64,105
Cash and cash eq.	57,096	51,625	65,841	70,153	82,496
Accounts receivables	32,226	36,827	37,860	48,490	57,341
Inventories	11,152	17,867	21,650	26,939	31,856
Other current assets	21,585	25,132	27,499	35,021	41,413
Investments	0	0	0	0	0
Net fixed assets	11,961	32,647	31,090	28,747	26,285
CWIP	880	338	510	621	735
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	23,702	15,716	16,640	20,278	23,979
Total assets	1,58,602	1,80,152	2,01,090	2,30,250	2,64,105

Cash Flows

Y/E 30 Sep (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash flow from operations	7,197	14,222	9,875	13,634	23,072
Capital expenditures	(102)	(1,071)	(1,313)	(1,500)	(1,500)
Change in investments	0	(13,623)	4,419	(111)	(113)
Other investing cash flows	8,811	(9,196)	(3,459)	(2,542)	(2,586)
Cash flow from investing	8,709	(23,890)	(353)	(4,153)	(4,200)
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	(3,860)	(5,021)	(3,922)	(5,169)	(6,529)
Cash flow from financing	(3,860)	(5,021)	(3,922)	(5,169)	(6,529)
Chg in cash & cash eq.	12,046	(14,689)	5,600	4,312	12,343
Closing cash & cash eq.	57,096	51,625	65,841	70,153	82,496

Per Share

Y/E 30 Sep (Rs)	FY20A	FY21A	FY22A	FY23E	FY24E
Reported EPS	21.6	28.9	35.4	48.4	61.1
Adjusted EPS	21.6	28.9	35.4	48.4	61.1
Dividend per share	7.0	8.0	10.0	12.0	12.0
Book value per share	266.6	290.7	326.1	360.0	402.8

Valuations Ratios

Y/E 30 Sep (x)	FY20A	FY21A	FY22A	FY23E	FY24E
EV/Sales	11.4	8.7	7.1	5.9	5.0
EV/EBITDA	113.5	77.0	64.9	49.3	40.2
Adjusted P/E	141.5	105.7	86.3	63.2	50.0
P/BV	11.5	10.5	9.4	8.5	7.6

DuPont Analysis

Y/E 30 Sep (%)	FY20A	FY21A	FY22A	FY23E	FY24E
Tax burden (Net profit/PBT)	74.2	73.9	73.7	74.8	74.8
Interest burden (PBT/EBIT)	138.0	117.0	118.9	117.8	116.9
EBIT margin (EBIT/Revenue)	7.6	9.0	8.9	9.9	10.7
Asset turnover (Rev./Avg TA)	63.7	77.9	84.7	91.2	94.1
Leverage (Avg TA/Avg Equity)	1.7	1.7	1.7	1.8	1.8
Adjusted ROAE	8.3	10.4	11.5	14.1	16.0

Ratio Analysis

Y/E 30 Sep	FY20A	FY21A	FY22A	FY23E	FY24E
YoY growth (%)					
Revenue	(24.0)	32.7	22.3	21.9	18.3
EBITDA	(34.2)	48.3	18.1	33.2	23.3
Adjusted EPS	(32.2)	33.8	22.5	36.5	26.3
Profitability & Return ratios (%)					
EBITDA margin	10.1	11.3	10.9	11.9	12.4
EBIT margin	7.6	9.0	8.9	9.9	10.7
Adjusted profit margin	7.7	7.8	7.8	8.8	9.4
Adjusted ROAE	8.3	10.4	11.5	14.1	16.0
ROCE	7.5	10.7	11.9	14.6	16.5
Working capital days (days)					
Receivables	118	102	86	90	90
Inventory	41	49	49	50	50
Payables	103	102	91	90	90
Ratios (x)					
Gross asset turnover	4.6	3.8	3.4	4.0	4.6
Current ratio	2.1	1.9	1.9	1.9	1.9
Net interest coverage ratio	25.5	49.0	39.7	88.9	113.1
Adjusted debt/equity	(0.4)	(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%

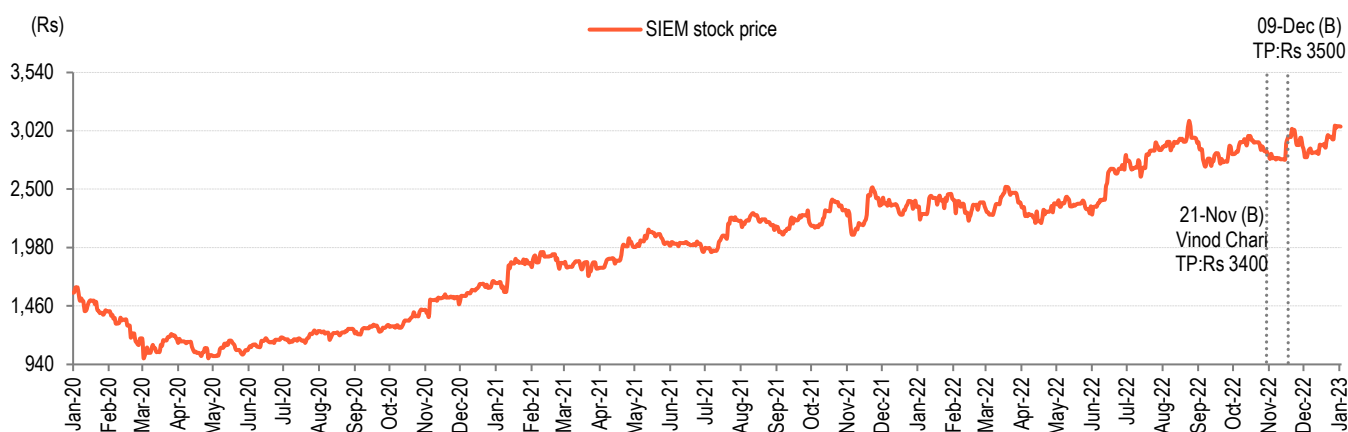
HOLD – Expected return from -6% to +15%

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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