

**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

Target	Rating
▲	◀ ▶

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%

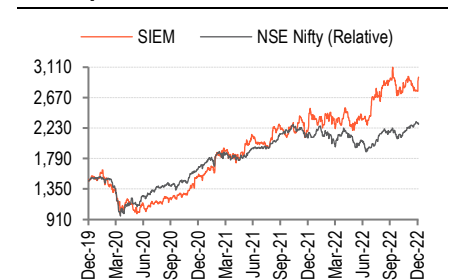
Source: NSE | Price as of 9 Dec 2022

### 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



## Q4FY22 result overview

Fig 1 – Q4FY22 snapshot

Particulars (Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
Revenue	46,571	41,736	11.6	42,583	9.4
EBITDA	5,159	4,449	16.0	4,122	25.2
EBITDAM (%)	11.1	10.7	40bps	9.7	140bps
Depreciation	798	849	(6.0)	787	1.4
Interest	132	70	88.6	44	200.0
Other Income	1,028	622	65.3	787	30.6
PBT	5,257	4,152	26.6	4,078	28.9
Tax	1,440	990	45.5	1,053	36.8
Adjusted PAT	3,817	3,162	20.7	3,025	26.2
Exceptional item	-	-	-	-	-
Reported PAT	3,817	3,162	20.7	3,025	26.2
Adj. PATM (%)	8.2	7.6	60bps	7.1	110bps
EPS (Rs)	10.7	8.9	20.7	8.5	26.2

Source: Company, BOBCAPS Research

Fig 2 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	SY23E	SY24E
Sales	1,96,656	2,32,550	1,96,411	2,27,039	0.1	2.4
EBITDA	23,402	28,847	23,351	29,814	0.2	(3.2)
PAT	17,228	21,764	16,824	22,037	2.4	(1.2)
EPS	48.4	61.1	47.3	61.9	2.3	(1.2)
EBITDAM (%)	11.9	12.4	11.9	13.1	0bps	(70bps)

Source: Company, BOBCAPS Research

Fig 3 – Segment details

Particulars	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Revenue (Rs mn)</b>									
Power & Gas	15,830	10,169	11,913	9,549	15,710	10,892	11,958	14,544	16,316
Growth YoY (%)	(5.2)	14.4	16.0	72.2	(0.8)	7.1	0.4	52.3	3.9
Smart Infrastructure	9,208	8,821	11,501	10,717	15,268	12,870	14,895	15,060	16,658
Growth YoY (%)	(14.8)	16.2	48.5	246.6	65.8	45.9	29.5	40.5	9.1
Mobility	3,288	2,105	2,589	1,441	3,117	3,007	2,951	3,911	4,418
Growth YoY (%)	(8.4)	1.0	1.3	28.5	(5.2)	42.9	14.0	171.4	41.7
Digital Industries	6,328	7,699	7,917	6,838	7,839	7,910	8,739	9,962	9,444
Growth YoY (%)	(12.0)	28.3	50.3	275.9	23.9	2.7	10.4	45.7	20.5
Portfolio of Companies	1,276	936	1,305	963	1,233	1,301	1,536	1,411	
Growth YoY (%)	4.1	(62.3)	39.9	52.6	(3.4)	39.0	17.7	46.5	
<b>EBIT (Rs mn)</b>									
Power & Gas	1,921	1,277	1,804	765	2,072	1,232	1,623	1,243	1,550
Margin (%)	12.1	12.6	15.1	8.0	13.2	11.3	13.6	8.5	9.5
Smart Infrastructure	974	663	988	166	729	600	899	1,072	1,283
Margin (%)	10.6	7.5	8.6	1.5	4.8	4.7	6.0	7.1	7.7
Mobility	440	230	290	238	364	304	366	183	378
Margin (%)	13.4	10.9	11.2	16.5	11.7	10.1	12.4	4.7	8.6
Digital Industries	499	802	686	315	527	666	992	828	1,114
Margin (%)	7.9	10.4	8.7	4.6	6.7	8.4	11.4	8.3	11.8
Portfolio of Companies	109	50	125	27	49	30	136	-24	-
Margin (%)	8.5	5.3	9.6	2.8	4.0	2.3	8.9	(1.7)	-

Source: Company, BOBCAPS Research

## Earnings call highlights

- Order inflows stood at Rs40bn, up by 19% in Q4FY22, with order backlog at Rs 172bn

### Outlook

- Spending on overall infra is expected to drive growth. Particularly, Private capex led by PLI scheme is expected to drive investments in niche areas (Semiconductors, Data Centres, EV). Overall, management is not seeing any slowing in capex or opex either from government/ private. Mobility which has been relatively laggard, is gaining traction with Siemens expanding offerings to complete systems (Rolling Stock, Bogies, Turnkey). Management would be cautious in bidding for large projects, while component/ products would continue to be focus area. Focus continues to be on increasing digitalization, de-carbonization, energy efficiency solution. To summarize, management remains optimistic of overall growth prospects.
- Supply chain challenges primarily related to semiconductors, logistics causing shipment delays, though this is mostly outbound. Siemens India, on the other hand, is largely immune to global headwinds because domestic growth drivers remain intact. Inflation and interest rates have little impact on capex/opex activities, according to management.

### C&S Electric

- C&S Electric – Revenue: Rs 2.8bn, up by 6% YoY in Q4FY22. EBIT breakeven (vs Q3/Q2/Q1SY22: loss (Rs 46/3/15mn))
- C&S Electric's strategic intent to expand globally while building locally is on track. As of now, the integration costs have been fully accounted for. The outlook remains positive, with management confident of achieving targeted margin.

## Segment wise

### Energy segment

- Conventional energy (generation) has remained muted, though response has been positive for turbines under 10MW. The transmission segment did see an uptick; however, the delayed TBCB project (due to land acquisition and Right of Way) has been pushed into FY23 (September's end), where it should hopefully see closure. The private sector accounted for the majority of transmission capex. Capex in distribution is being seen, with much of it occurring in states. Discoms face challenges; however, privatised discoms are investing in capex and focusing on increased efficiency.
- Key orders: Conversion of 220kv from AIS to GIS for private steel plant  
  
Demand is primarily seen in distilleries, cement, sugar, and fertiliser - all of which have steam as a by-product and are focusing on reducing energy consumption/upgrading. Steam turbines (10MW) are gaining traction in power generation.

- Renewables, industrial decarbonization solutions (WHR, biomass), and increased industrialization are expected to drive demand for more GW, which will drive generation. Given that total installed capacity is expected to double by 2030 (primarily from renewables), the transmission network is expected to lead growth. Furthermore, power plant modernization and upgrade are gaining traction, which should lead to an increase in service orders. Overall, energy markets are expected to grow at a fairly consistent rate.

### **Smart infrastructure**

- Margin impacted by large import content, led by cost component increases, logistical delays, and automation. Electric vehicles, data centres, and building automation are expected to be major growth drivers in the coming years. This should drive demand for electrification, fire safety, digital solutions, and automation products.

### **Mobility**

- The railways are investing heavily in electrification and rolling stock. Railways have increased capital expenditure for the second year in a row.
- Key orders: Pune Hinjewadi Metro, Signaling for RVNL (one of the biggest orders), IR Trainset Development (Vande Bharat), 9000HP Locomotive propulsion upgrade
- Management is building its portfolio to address mobility business in a more strategic manner. It has localization plans in place (through its factory in Aurangabad, Nashik factory). Expect market growth led by expansion of rail networks, locomotives, Vande Bharat trainsets, and metros

### **Digital industries**

- Key orders: Analytical Package for Gas Cracker for greenfield petrochem, and vaccine manufacturing (End-to-end Automation, Cybersecurity for the plant). Increasing interest is seen in digitalization e.g., intralogistics in a Steel plant.
- Private sector growth is expected to continue, owing not only to capital expenditure and infrastructure expansion, but also due to increased demand from industries. Semiconductors, solar cells, electric vehicles, batteries and battery storage systems, data centres, chemicals, steel, and cement would be new areas of growth.

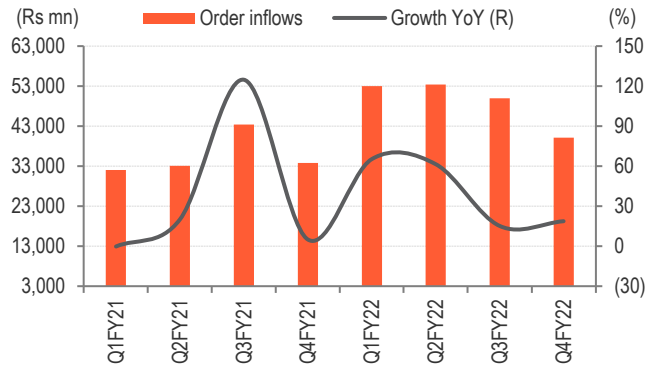
## Focus charts

**Fig 4 – Order backlog trend**



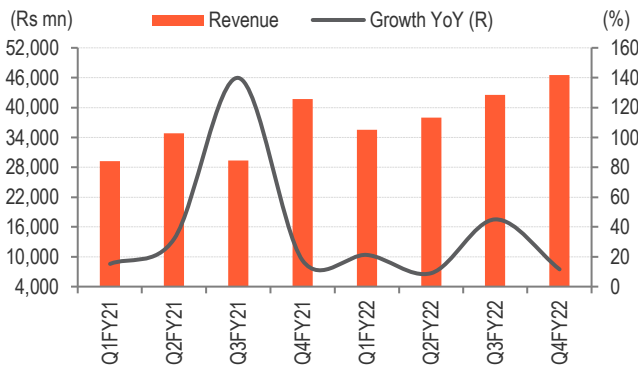
Source: Company, BOBCAPS Research

**Fig 5 – Order inflows growth trend**



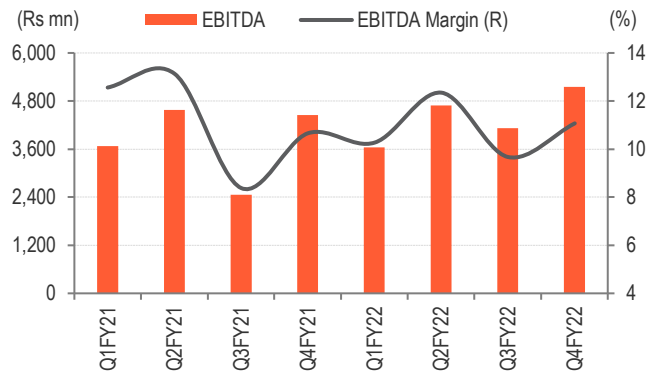
Source: Company, BOBCAPS Research

**Fig 6 – Revenue growth trend**



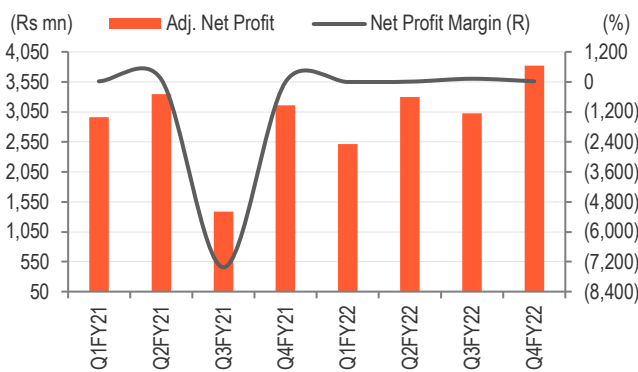
Source: Company, BOBCAPS Research

**Fig 7 – EBITDA, and EBITDA margin trend**



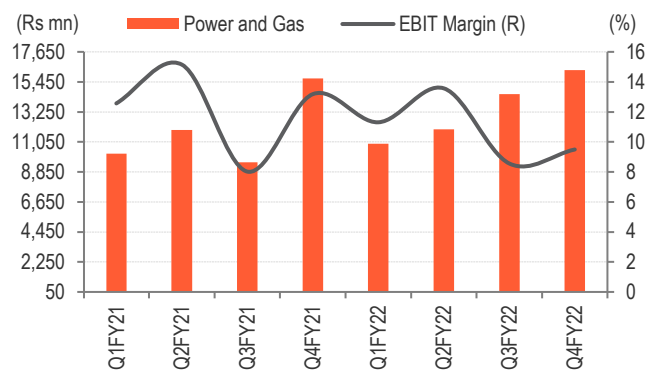
Source: Company, BOBCAPS Research

**Fig 8 – Adj. PAT growth trend**



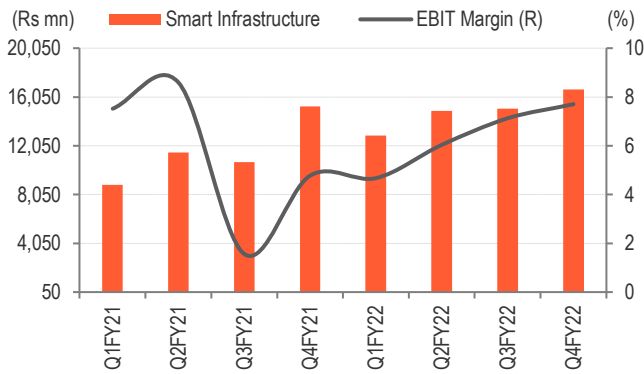
Source: Company, BOBCAPS Research

**Fig 9 – Energy segment growth trend**



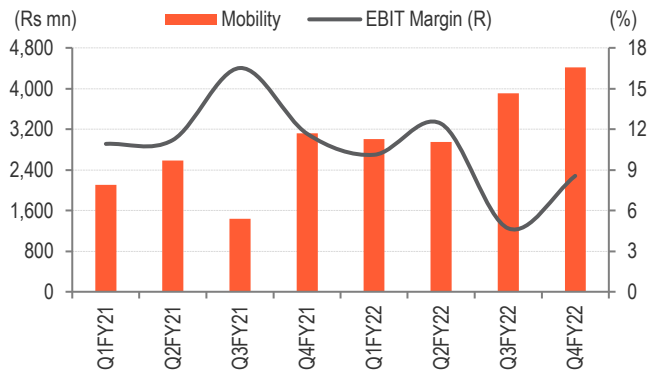
Source: Company, BOBCAPS Research

**Fig 10 – Smart infra growth trend**



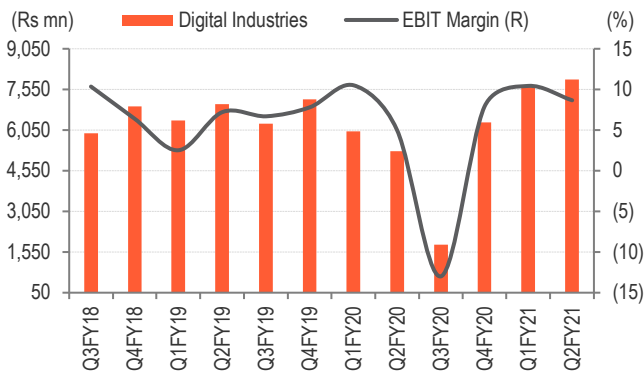
Source: Company, BOBCAPS Research

**Fig 11 – Mobility growth trend**



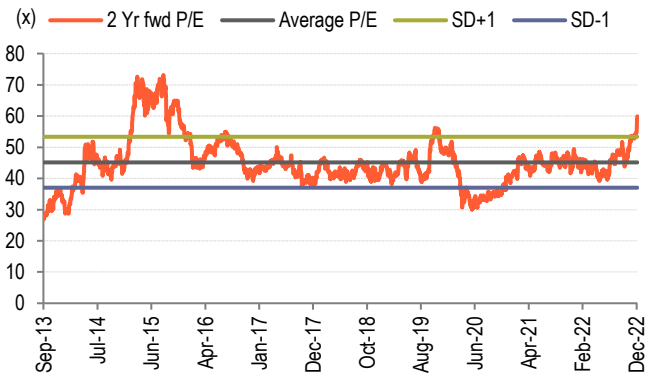
Source: Company, BOBCAPS Research

**Fig 12 – Digital industries growth trend**



Source: Company, BOBCAPS Research

**Fig 13 – Valuation chart**



Source: Company, BOBCAPS Research

Fig 14 – Adjusted EBITDA margin

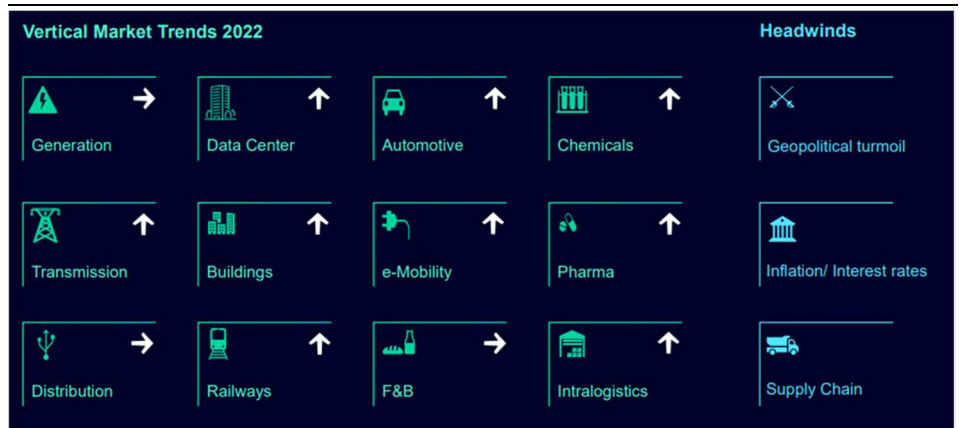
**EBITDA Bridge: Underlying EBITDA margin improved without FX/ Commodity impact**

figures in million INR

	FY 21	FY 22	Q4 FY 21	Q4 FY 22
Revenue from contracts with customers	123,280	145,881	38,228	42,367
EBITDA as reported	14,311	16,070	4,236	4,696
Margin (% of revenue)	11.6%	11.0%	11.1%	11.1%
<i>Included:</i>				
FX gains/ losses	26	-1,307	-14	-710
Commodity gains/ losses	339	-771	-120	-396
Total	365	-2,078	-134	-1,106
Adjusted EBITDA	13,946	18,148	4,370	5,802
Margin (% of revenue)	11.3%	12.4%	11.4%	13.7%

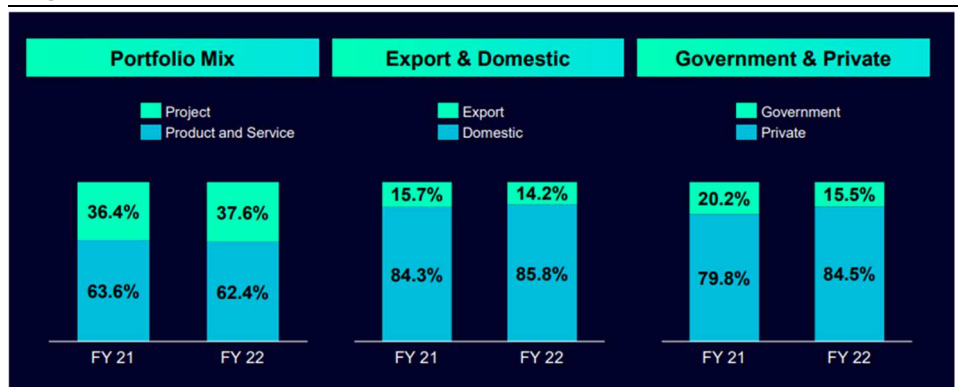
Source: Company, BOBCAPS Research

Fig 15 – Siemens market growth trend

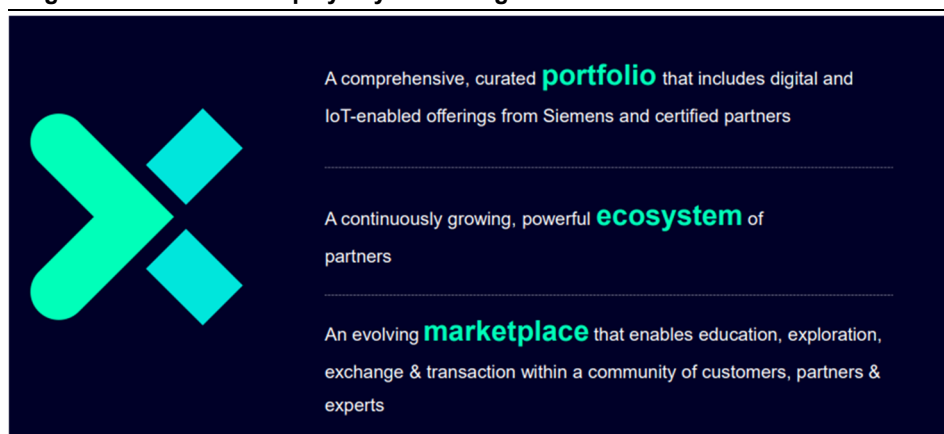


Source: Company, BOBCAPS Research

Fig 16 – Order inflows mix (% of new orders)



Source: Company, BOBCAPS Research

**Fig 17 – Xcelerator – to play key role in digital transformation**

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 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).

**Fig 18 – Key assumption**

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

Source: Company, BOBCAPS Research

## 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	2,977	3,100	HOLD
AIA Engineering	AIAE IN	3.2	2,753	3,100	BUY
Cummins India	KKC IN	5.1	1,523	1,300	HOLD
Hitachi Energy	POWERIND IN	1.6	3,077	3,600	BUY
KEC International	KECI IN	1.5	471	500	BUY
KEI Industries	KEII IN	1.8	1,615	1,900	BUY
Larsen & Toubro	LT IN	36.8	2,154	2,390	BUY
Siemens India	SIEM IN	12.8	2,967	3,500	BUY
Thermax	TMX IN	3.0	2,057	2,100	HOLD

Source: BOBCAPS Research, NSE | Price as of 9 Dec 2022

## Financials

### Income Statement

Y/E 30 Sep (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Total revenue</b>	<b>99,465</b>	<b>1,31,985</b>	<b>1,61,378</b>	<b>1,96,656</b>	<b>2,32,550</b>
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
<b>Reported net profit</b>	<b>7,686</b>	<b>10,298</b>	<b>12,619</b>	<b>17,228</b>	<b>21,764</b>
Adjustments	9	0	0	0	0
<b>Adjusted net profit</b>	<b>7,695</b>	<b>10,298</b>	<b>12,619</b>	<b>17,228</b>	<b>21,764</b>

### 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
<b>Total liab. and equities</b>	<b>1,58,602</b>	<b>1,80,152</b>	<b>2,01,090</b>	<b>2,30,250</b>	<b>2,64,105</b>
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
<b>Total assets</b>	<b>1,58,602</b>	<b>1,80,152</b>	<b>2,01,090</b>	<b>2,30,250</b>	<b>2,64,105</b>

### Cash Flows

Y/E 30 Sep (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Cash flow from operations</b>	<b>7,197</b>	<b>14,222</b>	<b>9,875</b>	<b>13,634</b>	<b>23,072</b>
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)
<b>Cash flow from investing</b>	<b>8,709</b>	<b>(23,890)</b>	<b>(353)</b>	<b>(4,153)</b>	<b>(4,200)</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	(3,860)	(5,021)	(3,922)	(5,169)	(6,529)
<b>Cash flow from financing</b>	<b>(3,860)</b>	<b>(5,021)</b>	<b>(3,922)</b>	<b>(5,169)</b>	<b>(6,529)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>12,046</b>	<b>(14,689)</b>	<b>5,600</b>	<b>4,312</b>	<b>12,343</b>
<b>Closing cash &amp; cash eq.</b>	<b>57,096</b>	<b>51,625</b>	<b>65,841</b>	<b>70,153</b>	<b>82,496</b>

### 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	11.1	8.4	6.9	5.7	4.8
EV/EBITDA	110.2	74.8	63.0	47.9	39.0
Adjusted P/E	137.3	102.6	83.7	61.3	48.5
P/BV	11.1	10.2	9.1	8.2	7.4

### 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
<b>YoY growth (%)</b>					
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
<b>Profitability &amp; Return ratios (%)</b>					
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
<b>Working capital days (days)</b>					
Receivables	118	102	86	90	90
Inventory	41	49	49	50	50
Payables	103	102	91	90	90
<b>Ratios (x)</b>					
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%

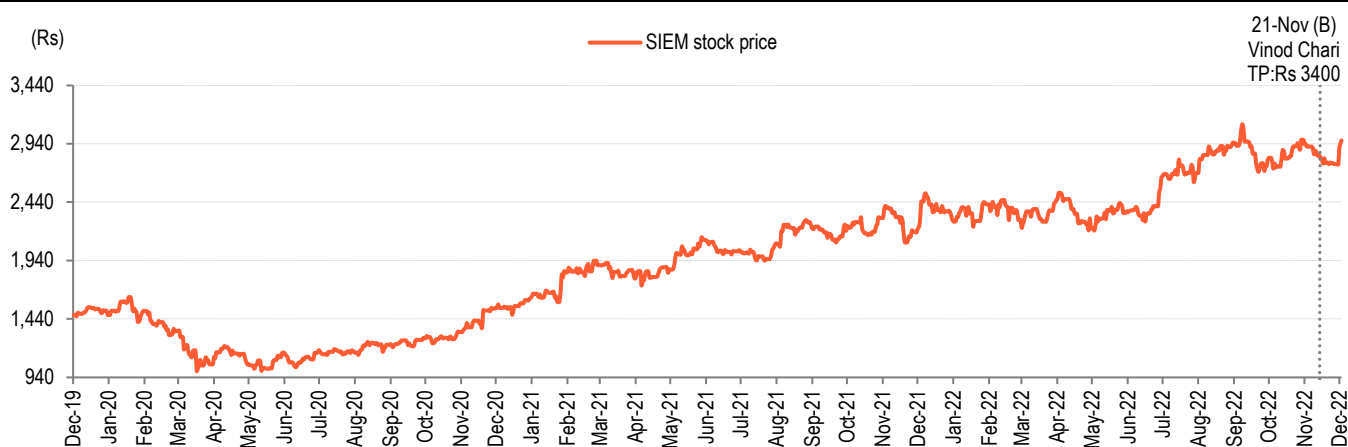
**HOLD** – Expected return from -6% to +15%

**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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