

**HOLD**

TP: Rs 3,700 | ▼ 1%

**SIEMENS INDIA**

| Capital Goods

| 19 May 2023

**Low-voltage deal appears unfavourable; cut to HOLD**

- Low-voltage and geared motors business divested to parent for Rs 22bn (2.1x revenue)
- Management expects remaining divisions to offset loss of business on account of the hive-off)
- We find deal valuations unfavourable; cut to HOLD with a revised TP of Rs 3,700 (vs. Rs 4,500) on a lower 52x target P/E (vs. 62x)

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**LV business sold for Rs 22bn:** SIEM is selling its low-voltage (LV) and geared motors business to parent Siemens AG for a consideration of Rs 22bn. The business has been valued at Rs 20.7bn-21.65bn by an independent valuer, implying a multiple of 2.1x FY22 revenue, 15.5x EV/EBITDA and ~17x P/E (vs. ~84x for the blended business).

**Deal aligns with global strategy:** The deal is in line with the parent’s global strategy of carving out the motors business. Last year, SIEM had divested the mid-voltage (MV) business to its parent and the current deal completes the hive-off. Siemens AG, which has the IPR for the motors business, eventually plans to monetise the same either through a public offer or via a strategic investor.

**Emphasis on digital growth to counter hive-off impact:** SIEM is stepping up its focus on the digital business and plans to use its current base in the electrical and automation segments, where it serves close to 20 verticals including cement, steel, and food & beverage, to leverage digital growth. Management believes its exit from the LV business, where it had expected a decline, will be offset by the digital thrust.

**Focus on emerging areas:** SIEM 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 railway orders expected while the acquisition of Mass-Tech Controls’ electric vehicle division should help the company make inroads in the charging infrastructure space.

**Outlook cautious; downgrade to HOLD:** SIEM stressed that its remaining divisions should be able to offset the loss of business on account of the divestment and hence we keep our estimates unchanged. However, the deal valuation does not appear to be in favour of minority shareholders (whose approval is pending), given SIEM’s current blended valuation. We, therefore, turn cautious on the stock and roll back our target FY25E P/E multiple by 20% to 52x – in line with 5Y average. This yields a reduced TP of Rs 3,700 (vs. Rs 4,500), carrying virtually no upside – downgrade from BUY to HOLD.

**Key changes**

	Target	Rating
	▼	▼

Ticker/Price	SIEM IN/Rs 3,723
Market cap	US\$ 16.1bn
Free float	25%
3M ADV	US\$ 14.8mn
52wk high/low	Rs 3,938/Rs 2,251
Promoter/FPI/DII	75%/5%/10%

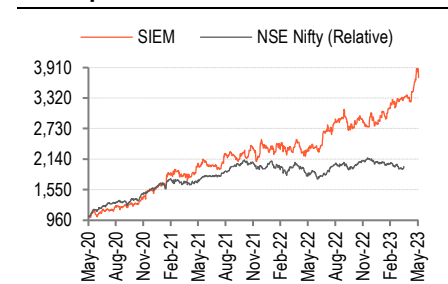
Source: NSE | Price as of 19 May 2023

**Key financials**

Y/E 30 Sep	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,61,378	1,96,656	2,33,094
EBITDA (Rs mn)	17,573	23,402	29,432
Adj. net profit (Rs mn)	12,619	17,228	22,202
Adj. EPS (Rs)	35.4	48.4	62.4
Consensus EPS (Rs)	35.4	47.3	61.9
Adj. ROAE (%)	11.5	14.1	16.3
Adj. P/E (x)	105.0	76.9	59.7
EV/EBITDA (x)	78.4	59.4	47.4
Adj. EPS growth (%)	22.5	36.5	28.9

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



## Valuation methodology

SIEM's sale of its LV and geared motors division to Siemens AG for a consideration of Rs 22bn is in line with the parent's global strategy of carving out the motors business. While there are no comparable listed peers, the business has been assessed at Rs 20.7bn-21.65bn by an independent valuer, implying a multiple of ~17x TTM P/E vs. ~84x for the company's blended business.

SIEM has stressed that its remaining divisions should be able to offset the loss of business on account of the divestment and hence we keep our estimates unchanged. However, the deal valuation does not appear to be in favour of minority shareholders (whose approval is pending), given SIEM's current blended valuation. We, therefore, turn cautious on the stock and roll back our target FY25E P/E multiple by 20% from 62x to 52x – in line with 5Y average. This yields a reduced TP of Rs 3,700 (vs. Rs 4,500), carrying virtually no upside – cut from BUY to HOLD.

## 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 LV motor business is a key downside risk.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ABB India	ABB IN	10.0	3,895	3,700	HOLD
AIA Engineering	AIAE IN	3.2	2,825	3,300	BUY
Cummins India	KKC IN	5.5	1,640	1,600	HOLD
KEC International	KECI IN	1.7	540	500	HOLD
Larsen & Toubro	LT IN	37.4	2,190	2,630	BUY
Siemens India	SIEM IN	16.1	3,723	3,700	HOLD
Thermax	TMX IN	3.2	2,227	2,400	HOLD

Source: BOBCAPS Research, NSE | Price as of 19 May 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>1,96,656</b>	<b>2,33,094</b>	<b>2,83,697</b>
EBITDA	14,880	17,573	23,402	29,432	37,812
Depreciation	2,974	3,171	3,843	3,963	4,083
EBIT	11,906	14,402	19,559	25,469	33,729
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	23,033	29,681	38,828
Income taxes	3,629	4,498	5,804	7,480	9,785
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>17,228</b>	<b>22,202</b>	<b>29,043</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>10,298</b>	<b>12,619</b>	<b>17,228</b>	<b>22,202</b>	<b>29,043</b>

### Balance Sheet

Y/E 30 Sep (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	36,715	40,401	48,490	57,475	69,953
Other current liabilities	31,702	39,498	47,413	56,198	68,398
Provisions	0	0	0	0	0
Debt funds	25	0	0	0	0
Other liabilities	8,160	5,013	6,109	7,241	8,813
Equity capital	712	712	712	712	712
Reserves & surplus	1,02,838	1,15,466	1,27,526	1,43,067	1,63,397
Shareholders' fund	1,03,550	1,16,178	1,28,238	1,43,779	1,64,109
<b>Total liab. and equities</b>	<b>1,80,152</b>	<b>2,01,090</b>	<b>2,30,250</b>	<b>2,64,693</b>	<b>3,11,273</b>
Cash and cash eq.	51,625	65,841	70,153	82,721	98,085
Accounts receivables	36,827	37,860	48,490	57,475	69,953
Inventories	17,867	21,650	26,939	31,931	38,863
Other current assets	25,132	27,499	35,021	41,510	50,521
Investments	0	0	0	0	0
Net fixed assets	32,647	31,090	28,747	26,285	23,702
CWIP	338	510	621	737	897
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	15,716	16,640	20,278	24,035	29,252
<b>Total assets</b>	<b>1,80,152</b>	<b>2,01,090</b>	<b>2,30,250</b>	<b>2,64,693</b>	<b>3,11,273</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>13,634</b>	<b>23,469</b>	<b>29,383</b>
Capital expenditures	(1,071)	(1,313)	(1,500)	(1,500)	(1,500)
Change in investments	(13,623)	4,419	(111)	(115)	(160)
Other investing cash flows	(9,196)	(3,459)	(2,542)	(2,625)	(3,646)
<b>Cash flow from investing</b>	<b>(23,890)</b>	<b>(353)</b>	<b>(4,153)</b>	<b>(4,240)</b>	<b>(5,306)</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)	(5,169)	(6,660)	(8,713)
<b>Cash flow from financing</b>	<b>(5,021)</b>	<b>(3,922)</b>	<b>(5,169)</b>	<b>(6,660)</b>	<b>(8,713)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(14,689)</b>	<b>5,600</b>	<b>4,312</b>	<b>12,568</b>	<b>15,364</b>
<b>Closing cash &amp; cash eq.</b>	<b>51,625</b>	<b>65,841</b>	<b>70,153</b>	<b>82,721</b>	<b>98,085</b>

### Per Share

Y/E 30 Sep (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	28.9	35.4	48.4	62.4	81.6
Adjusted EPS	28.9	35.4	48.4	62.4	81.6
Dividend per share	8.0	10.0	12.0	12.0	12.0
Book value per share	290.7	326.1	360.0	403.7	460.8

### Valuations Ratios

Y/E 30 Sep (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	10.5	8.5	7.1	6.0	5.0
EV/EBITDA	92.9	78.4	59.4	47.4	37.2
Adjusted P/E	128.7	105.0	76.9	59.7	45.6
P/BV	12.8	11.4	10.3	9.2	8.1

### 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	117.8	116.5	115.1
EBIT margin (EBIT/Revenue)	9.0	8.9	9.9	10.9	11.9
Asset turnover (Rev./Avg TA)	77.9	84.7	91.2	94.2	98.5
Leverage (Avg TA/Avg Equity)	1.7	1.7	1.8	1.8	1.9
Adjusted ROAE	10.4	11.5	14.1	16.3	18.9

### Ratio Analysis

Y/E 30 Sep	FY21A	FY22A	FY23E	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	32.7	22.3	21.9	18.5	21.7
EBITDA	48.3	18.1	33.2	25.8	28.5
Adjusted EPS	33.8	22.5	36.5	28.9	30.8
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	11.3	10.9	11.9	12.6	13.3
EBIT margin	9.0	8.9	9.9	10.9	11.9
Adjusted profit margin	7.8	7.8	8.8	9.5	10.2
Adjusted ROAE	10.4	11.5	14.1	16.3	18.9
ROCE	10.7	11.9	14.6	16.9	19.5
<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	4.6	5.5
Current ratio	1.9	1.9	1.9	1.9	1.9
Net interest coverage ratio	49.0	39.7	88.9	115.8	153.3
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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**BUY** – Expected return >+15%

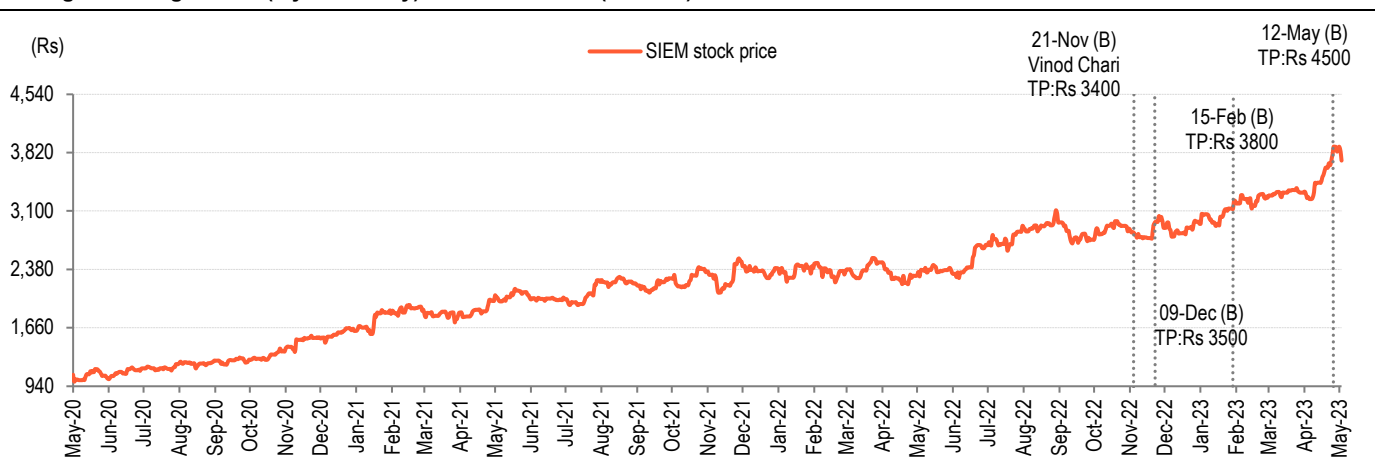
**HOLD** – Expected return from -6% to +15%

**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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