

BUY
 TP: Rs 4,600 | ▲ 16%

SIEMENS INDIA

Capital Goods

22 December 2023

Positive outlook continues; Maintain BUY

- SIEM ended FY23 on a strong note in terms of order inflows, backlog, revenues, profitability, and cash flows
- Apart from public capex, SIEM is receiving substantial enquiries from private sector with some starting to get converted into tenders
- Maintain BUY with a revised TP of Rs4,600(from Rs4,400) on rollover of valuations to Dec'25E

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Strong finish to FY23: SIEM ended its September ending FY23 with record order inflows of Rs464bn, up 139% YoY. This includes Rs263.1bn of 9000HP locomotives orders. Adjusted for this, base orders were still up 20% YoY. For FY23, revenues grew 21% at Rs196bn with double digit profitability margins with EBIDTA margins at 12.7% and PAT margins at 10.8%, and PAT at Rs19.6bn. The company's order backlog swelled 165% YoY to Rs 455.2bn (+14% when adjusted for a one-time rail order) giving it a book to bill of 2.6x (1.13x, ex of 9000HP locomotive orders).

All segments shine barring mobility: Margins expanded YoY across segments for FY23 as the company was able to extract better prices, except for mobility which saw a 280bps YoY decline to 5.4%, due to factory ramp up costs and R&D expenses for the new rail order. C&S Electric saw the end of integration costs and finished FY23 with a PBT margin of 10.9%.

Private capex expected to pick up: Capacity utilization in the private sector has reached 75%- the point at which companies draw up capex plans. SIEM is seeing substantial on-ground interest from private companies and some of these orders have started to get converted into tenders.

Confident of rail order profitability: The 9000HP locomotive orders is for supply of 1,200 coaches over 11 years with a 35-year maintenance contract. SIEM is confident of making good margins on this order.

Hive-offs to happen in next 2 years: SIEM continues to run its low-voltage (LV) motors business. We await more clarity on its sale. Another proposal that will be closely monitored is the demerger of the energy business by 2025.

Maintain BUY: SIEM's base business remains strong and enjoys a robust outlook as diverse customer segments enable it to play the capex cycle. We roll valuations to Dec'25E, leading to a higher TP of Rs 4,600 (from Rs 4,400). We keep our multiple at 52x, in line with the stock's five-year average.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	SIEM IN/Rs 3,967
Market cap	US\$ 17.2bn
Free float	25%
3M ADV	US\$ 15.6mn
52wk high/low	Rs 4,245/Rs 2,774
Promoter/FPI/DII	75%/5%/10%

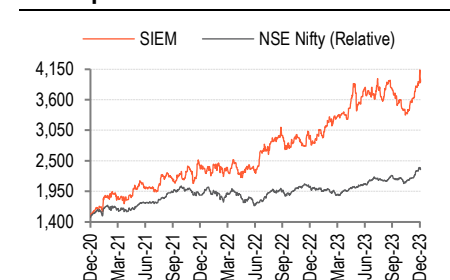
Source: NSE | Price as of 21 Dec 2023

Key financials

Y/E 30 Sep	FY23P	FY24E	FY25E
Total revenue (Rs mn)	1,95,538	2,30,779	2,78,689
EBITDA (Rs mn)	24,872	31,167	38,343
Adj. net profit (Rs mn)	19,619	24,357	29,968
Adj. EPS (Rs)	55.1	68.4	84.2
Consensus EPS (Rs)	55.1	63.4	77.0
Adj. ROAE (%)	15.9	17.3	18.4
Adj. P/E (x)	72.0	58.0	47.1
EV/EBITDA (x)	59.4	47.8	39.2
Adj. EPS growth (%)	55.5	24.1	23.0

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Analyst Meet Highlights

- **Increasing government expenditure:** The government is increasing its expenditure in rail, roads and highways, and energy. This is visible in the 70-80% announced outlay of Rs 10trn investment outlay being deployed.
- **Private expenditure to catch up:** Private capex in key sectors of pharma, data center, automotive, electronics, metals, intralogistics, chemical, water, and cement is expected to increase. Capacities were earlier being utilized to the tune of 52-53%, which has now gone up to 75-80% on average. The company expects continuing private capex and fresh capacity addition in the private sector. It also believes that this is an inflection point for capacity addition and investment plans. It has already received several enquiries, many of which have turned into tenders. PLI schemes by the government have an indirect benefit on Siemens, in the sense that they spur capacity addition and increased operations for its customers, which in turn benefits SIEM.
- **Siemens India key for parent:** Siemens India ranks third in volumes in the Siemens Global community, and has 32 factories in India, which serves India as well as other global companies of SIEM.
- **Siemens Energy:** Siemens AG has recently purchased 18% equity in Siemens Limited form Siemens Energy, and intends to demerge the energy business as a separately listed entity thereafter.
- **Digital transformation:** Through Siemens Xcelerator, SIEM intends to create a repeatable product for recurring problems faced by the customer, and has partnered with various companies like Koncept engineers, Sonicbolt, Safex and TCS to cater to key verticals of F&B, commercial buildings, data centers, and power utilities.
- **RM prices have softened:** Commodities like steel and oil have softened over the last 12 months
- **Capex plans:** SIEM has announced a capex of Rs4.2bn with Rs3.6bn in power transformers and the remaining in vacuum interrupters. The facility for power transformers will not only cater to India but also to SIEM worldwide.

Digital industries

- **Background:** This segment consists of factory automation (discrete products), process automation, motion control (CNC and machine control), and customer services.
- **Customers:** Key customers of this segment are automotive, pharma, F&B, chemicals, machine building, intralogistics, water, EV, and data centre industries.
- **Opportunities:** With PLI schemes fostering manufacturing for its customers, Industry 4.0 being adopted making factories increasingly automated and, high-end machine building and digitalization increasing, SIEM is set to grow at a stronger pace.

Smart infra

- **Background:** This segment includes electrification and automation (medium voltage), electrical products (low voltage, runs through distribution channels, includes MCBs, RCBs etc.), regional solutions and services and building products (includes building technologies related to safety and security etc.), grid software (relates to grid efficiencies in the transmission and distribution space), eMobility (this is a new vertical which caters to the growing trend of eMobility domestically and globally and includes every commercial establishment in addition to industries).
- **Customers:** Major customers in this segment operate in T&D utilities, data centers, airports, metros, commercial buildings, EVs and industries.
- **Opportunities:** The company sees strong investments in data centers and commercial buildings along with growth in industrial infrastructure with growth in metals, cement, O&G and eMobility. Additionally, it expects some opportunities as distribution utilities are upgraded, contributing to growth in this segment.
- **FY23 performance:** The company ended the year with a robust exit margin of 14.1%.

Mobility

- **Background:** This segment includes rail infrastructure (electrification and signaling), rolling stock (components and systems), turnkey, and customer services.
- **Customers:** The main customer for the mobility segment is Indian Railways. SIEM has won a large Rs 263.1bn order of 9,000 HP locomotives in FY23. The contract entails 11-year supply and 35-year maintenance requirements and the bid considers a weighted-average price over the tenure of the contract. SIEM will supply component and subsystems and assemble them in an Indian Railways factory where the locomotive will be built, and deliver and get paid on a per locomotive basis. The company is confident of the margin levels as it has access to 9000HP technology.
- **Opportunities:** The company sees strong opportunities in e-locomotives, propulsion systems, trainsets, bogies, and metro projects, and has recently completed electrification of metros in Ahmedabad and Surat.

Energy

- **Background:** The segment includes grid technologies (for transmission), transformation of industry (for generation and automation businesses), gas services (includes after-market services), engineering hub (one of 3 hubs owned by the parent globally), high voltage power transformers, substations, and steam turbines and upgradation thereof.
- **Customers:** The segment caters to generation leg of the power chain along with transmission utilities, while distribution utilities generally come under the smart infrastructure segment.
- **Opportunities:** Key opportunities for growth in the energy segment lie in the renewable integration to the Indian grid fostering growth in the transmission network along with modernization and upgrades of ageing fleet of large steam turbines.

Valuation methodology

SIEM is benefiting from structural tailwinds in its digitalization and automation businesses, as well as the traction mobility segment. The company is also well positioned to harness the opportunities from green energy transition. Its base business remains strong and enjoys a robust outlook as diverse customer segments enable the company to play the capex cycle.

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Key risks

Key downside risks to our estimates are:

- slowdown in capex,
- delay in execution leading to lower margins, and
- lower profitability in the tender-based business

Financials

Income Statement

Y/E 30 Sep (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	1,31,985	1,61,378	1,95,538	2,30,779	2,78,689
EBITDA	14,880	17,573	24,872	31,167	38,343
Depreciation	2,974	3,171	3,208	3,872	4,352
EBIT	11,906	14,402	21,664	27,295	33,992
Net interest inc./(exp.)	243	363	228	220	220
Other inc./(exp.)	2,264	3,078	4,962	5,706	6,562
Exceptional items	0	0	0	0	0
EBT	13,927	17,117	26,398	32,782	40,334
Income taxes	3,629	4,498	6,778	8,425	10,366
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	10,298	12,619	19,619	24,357	29,968
Adjustments	0	0	0	0	0
Adjusted net profit	10,298	12,619	19,619	24,357	29,968

Balance Sheet

Y/E 30 Sep (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	36,715	40,401	42,368	56,904	68,718
Other current liabilities	31,702	39,498	42,216	55,640	67,191
Provisions	0	0	0	0	0
Debt funds	25	0	0	0	0
Other liabilities	8,160	5,013	6,228	7,350	8,876
Equity capital	712	712	712	712	712
Reserves & surplus	1,02,838	1,15,466	1,30,245	1,50,218	1,74,792
Shareholders' fund	1,03,550	1,16,178	1,30,957	1,50,930	1,75,504
Total liab. and equities	1,80,152	2,01,090	2,21,769	2,70,824	3,20,289
Cash and cash eq.	51,625	65,841	76,507	89,340	1,04,190
Accounts receivables	36,827	37,860	47,072	56,904	68,718
Inventories	17,867	21,650	25,052	31,614	38,177
Other current assets	25,132	27,307	27,060	41,098	49,630
Investments	0	14	13	15	19
Net fixed assets	10,184	9,846	9,622	8,750	7,399
CWIP	338	510	496	585	707
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	38,179	37,870	36,457	43,028	51,960
Total assets	1,80,152	2,01,090	2,21,769	2,70,824	3,20,289

Cash Flows

Y/E 30 Sep (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	14,222	9,875	14,000	25,757	30,776
Capital expenditures	(1,071)	(1,313)	(1,919)	(3,000)	(3,000)
Change in investments	(13,623)	4,419	881	(92)	(125)
Other investing cash flows	(9,196)	(3,459)	(6,550)	(5,448)	(7,407)
Cash flow from investing	(23,890)	(353)	(7,588)	(8,540)	(10,531)
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)	(4,499)	(4,384)	(5,394)
Cash flow from financing	(5,021)	(3,922)	(4,499)	(4,384)	(5,394)
Chg in cash & cash eq.	(14,689)	5,600	1,913	12,833	14,850
Closing cash & cash eq.	51,625	65,841	76,507	89,340	1,04,190

Per Share

Y/E 30 Sep (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	28.9	35.4	55.1	68.4	84.2
Adjusted EPS	28.9	35.4	55.1	68.4	84.2
Dividend per share	8.0	10.0	10.0	12.3	15.2
Book value per share	290.7	326.1	367.6	423.7	492.7

Valuations Ratios

Y/E 30 Sep (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	11.1	9.1	7.6	6.5	5.4
EV/EBITDA	98.7	83.3	59.4	47.8	39.2
Adjusted P/E	137.1	111.9	72.0	58.0	47.1
P/BV	13.6	12.2	10.8	9.4	8.1

DuPont Analysis

Y/E 30 Sep (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	73.9	73.7	74.3	74.3	74.3
Interest burden (PBT/EBIT)	117.0	118.9	121.9	120.1	118.7
EBIT margin (EBIT/Revenue)	9.0	8.9	11.1	11.8	12.2
Asset turnover (Rev./Avg TA)	77.9	84.7	92.3	93.4	94.0
Leverage (Avg TA/Avg Equity)	1.7	1.7	1.7	1.8	1.8
Adjusted ROAE	10.4	11.5	15.9	17.3	18.4

Ratio Analysis

Y/E 30 Sep	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	32.7	22.3	21.2	18.0	20.8
EBITDA	48.3	18.1	41.5	25.3	23.0
Adjusted EPS	33.8	22.5	55.5	24.1	23.0
Profitability & Return ratios (%)					
EBITDA margin	11.3	10.9	12.7	13.5	13.8
EBIT margin	9.0	8.9	11.1	11.8	12.2
Adjusted profit margin	7.8	7.8	10.0	10.6	10.8
Adjusted ROAE	10.4	11.5	15.9	17.3	18.4
ROCE	10.7	11.9	15.7	17.1	18.3
Working capital days (days)					
Receivables	102	86	88	90	90
Inventory	49	49	47	50	50
Payables	102	91	79	90	90
Ratios (x)					
Gross asset turnover	6.8	7.8	8.6	9.0	9.7
Current ratio	1.9	1.9	2.1	1.9	1.9
Net interest coverage ratio	49.0	39.7	95.0	124.1	154.5
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%

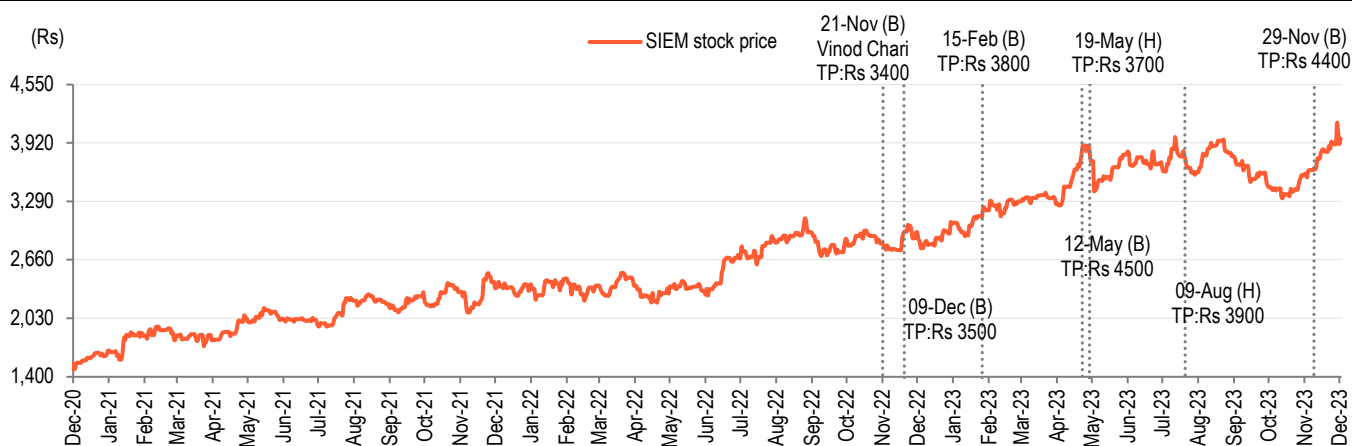
HOLD – Expected return from -6% to +15%

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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