

**HOLD**

TP: Rs 3,900 | ▲ 9%

**SIEMENS INDIA**

| Capital Goods

| 11 October 2023

## Innovation Day: Digitalisation key for manufacturing takeoff

- SIEM has identified three broad trends in India: high public spending on infrastructure, pent-up private capex and rising decarbonisation
- Management believes digitalisation and automation will be key to India's becoming a global manufacturing hub
- SIEM retains a bullish outlook on domestic public and private capex in the medium term; we maintain HOLD, TP Rs 3,900 (unchanged)

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We attended SIEM's Annual Innovation Day where the theme was 'Accelerate the Digital Transformation'. Following are the key takeaways:

**Public spending inducing a knock-on effect:** India has sustained its capex levels over the last decade through public spending. The government has budgeted for a 33% increase in capital outlay for FY24 to Rs 10tn, including rail expenditure of Rs 2.4tn and production-linked incentive (PLI) outlay of Rs 300bn, thereby creating a positive capex environment in the country.

**Private capex expected to pick up:** Capacity utilisation in the private sector has reached 75%, a level not seen in recent times. This is typically the point at which companies draw up capex plans. SIEM is seeing substantial on-ground interest from private companies and is optimistic that these enquiries will be converted to orders.

**India to become a manufacturing hub:** India has an ambitious long-term target of raising the share of manufacturing from the current 15% of GDP to 25%. This will entail capex of close to US\$ 1tn in manufacturing, which will drive energy demand and, in turn, boost outlay on power generation and transmission.

**Digitalisation key for efficiency:** India's manufacturing efficiency is 75% vs. 99% for Europe, per SIEM. The company believes this gap can be bridged by automation and digitalisation across the manufacturing and supply chain, presenting a ripe market for digital products considering the country's ~60mn micro, small and medium enterprises.

**Solar to lead India's decarbonisation efforts:** India is a key country in global renewable energy targets, where RE is targeted to form 50% of the energy mix, coal-fired supply shrinks to 50% or less and gas-based power reduces to 10% from 25% by 2050. India is a natural solar market with 300 sunny days a year. Solar energy prices have fallen with lower module prices and the scale effect, which should sustain capex.

**Maintain HOLD:** We continue to value the stock at 52x Jun'25E EPS, in line with the 5Y average, for an unchanged TP of Rs 3,900. HOLD.

### Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	SIEM IN/Rs 3,591
Market cap	US\$ 15.6bn
Free float	25%
3M ADV	US\$ 16.3mn
52wk high/low	Rs 4,069/Rs 2,692
Promoter/FPI/DII	75%/5%/10%

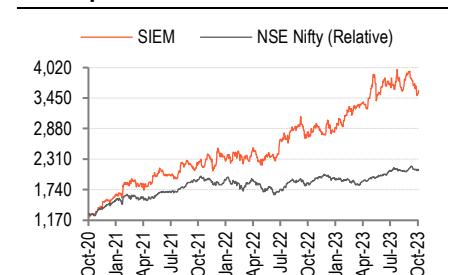
Source: NSE | Price as of 10 Oct 2023

### Key financials

Y/E 30 Sep	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,61,378	1,92,754	2,28,441
EBITDA (Rs mn)	17,573	24,085	30,236
Adj. net profit (Rs mn)	12,619	17,740	22,803
Adj. EPS (Rs)	35.4	49.8	64.1
Consensus EPS (Rs)	35.4	53.0	63.4
Adj. ROAE (%)	11.5	14.4	16.5
Adj. P/E (x)	101.3	72.1	56.1
EV/EBITDA (x)	75.7	55.8	44.7
Adj. EPS growth (%)	22.5	40.6	28.5

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE



## 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>1,92,754</b>	<b>2,28,441</b>	<b>2,78,014</b>
EBITDA	14,880	17,573	24,085	30,236	36,573
Depreciation	2,974	3,171	3,843	3,963	4,083
EBIT	11,906	14,402	20,243	26,273	32,491
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	23,716	30,485	37,589
Income taxes	3,629	4,498	5,977	7,682	9,473
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>17,740</b>	<b>22,803</b>	<b>28,117</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>10,298</b>	<b>12,619</b>	<b>17,740</b>	<b>22,803</b>	<b>28,117</b>

### Balance Sheet

Y/E 30 Sep (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	36,715	40,401	47,528	56,328	68,551
Other current liabilities	31,702	39,498	46,472	55,076	67,028
Provisions	0	0	0	0	0
Debt funds	25	0	0	0	0
Other liabilities	8,160	5,013	5,988	7,096	8,636
Equity capital	712	712	712	712	712
Reserves & surplus	1,02,838	1,15,466	1,28,948	1,46,415	1,68,122
Shareholders' fund	1,03,550	1,16,178	1,29,660	1,47,127	1,68,834
<b>Total liab. and equities</b>	<b>1,80,152</b>	<b>2,01,090</b>	<b>2,29,649</b>	<b>2,65,628</b>	<b>3,13,049</b>
Cash and cash eq.	51,625	65,841	72,158	86,763	1,03,657
Accounts receivables	36,827	37,860	47,528	56,328	68,551
Inventories	17,867	21,650	26,405	31,293	38,084
Other current assets	25,132	27,499	34,326	40,681	49,509
Investments	0	0	0	0	0
Net fixed assets	32,647	31,090	28,747	26,285	23,702
CWIP	338	510	609	722	879
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	15,716	16,640	19,875	23,555	28,667
<b>Total assets</b>	<b>1,80,152</b>	<b>2,01,090</b>	<b>2,29,649</b>	<b>2,65,628</b>	<b>3,13,049</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>14,434</b>	<b>24,126</b>	<b>28,532</b>
Capital expenditures	(1,071)	(1,313)	(1,500)	(1,500)	(1,500)
Change in investments	(13,623)	4,419	(99)	(113)	(157)
Other investing cash flows	(9,196)	(3,459)	(2,261)	(2,571)	(3,572)
<b>Cash flow from investing</b>	<b>(23,890)</b>	<b>(353)</b>	<b>(3,860)</b>	<b>(4,184)</b>	<b>(5,228)</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)	(4,258)	(5,336)	(6,411)
<b>Cash flow from financing</b>	<b>(5,021)</b>	<b>(3,922)</b>	<b>(4,258)</b>	<b>(5,336)</b>	<b>(6,411)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(14,689)</b>	<b>5,600</b>	<b>6,317</b>	<b>14,606</b>	<b>16,893</b>
<b>Closing cash &amp; cash eq.</b>	<b>51,625</b>	<b>65,841</b>	<b>72,158</b>	<b>86,763</b>	<b>1,03,657</b>

### Per Share

Y/E 30 Sep (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	28.9	35.4	49.8	64.1	79.0
Adjusted EPS	28.9	35.4	49.8	64.1	79.0
Dividend per share	8.0	10.0	12.0	15.0	18.0
Book value per share	290.7	326.1	364.0	413.1	474.0

### Valuations Ratios

Y/E 30 Sep (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	10.1	8.2	7.0	5.9	4.9
EV/EBITDA	89.8	75.7	55.8	44.7	37.3
Adjusted P/E	124.1	101.3	72.1	56.1	45.5
P/BV	12.4	11.0	9.9	8.7	7.6

### 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	117.2	116.0	115.7
EBIT margin (EBIT/Revenue)	9.0	8.9	10.5	11.5	11.7
Asset turnover (Rev./Avg TA)	77.9	84.7	89.5	92.2	96.1
Leverage (Avg TA/Avg Equity)	1.7	1.7	1.8	1.8	1.8
Adjusted ROAE	10.4	11.5	14.4	16.5	17.8

### Ratio Analysis

Y/E 30 Sep	FY21A	FY22A	FY23E	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	32.7	22.3	19.4	18.5	21.7
EBITDA	48.3	18.1	37.1	25.5	21.0
Adjusted EPS	33.8	22.5	40.6	28.5	23.3
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	11.3	10.9	12.5	13.2	13.2
EBIT margin	9.0	8.9	10.5	11.5	11.7
Adjusted profit margin	7.8	7.8	9.2	10.0	10.1
Adjusted ROAE	10.4	11.5	14.4	16.5	17.8
ROCE	10.7	11.9	14.9	17.0	18.3
<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	4.5	5.4
Current ratio	1.9	1.9	1.9	1.9	1.9
Net interest coverage ratio	49.0	39.7	92.0	119.4	147.7
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%

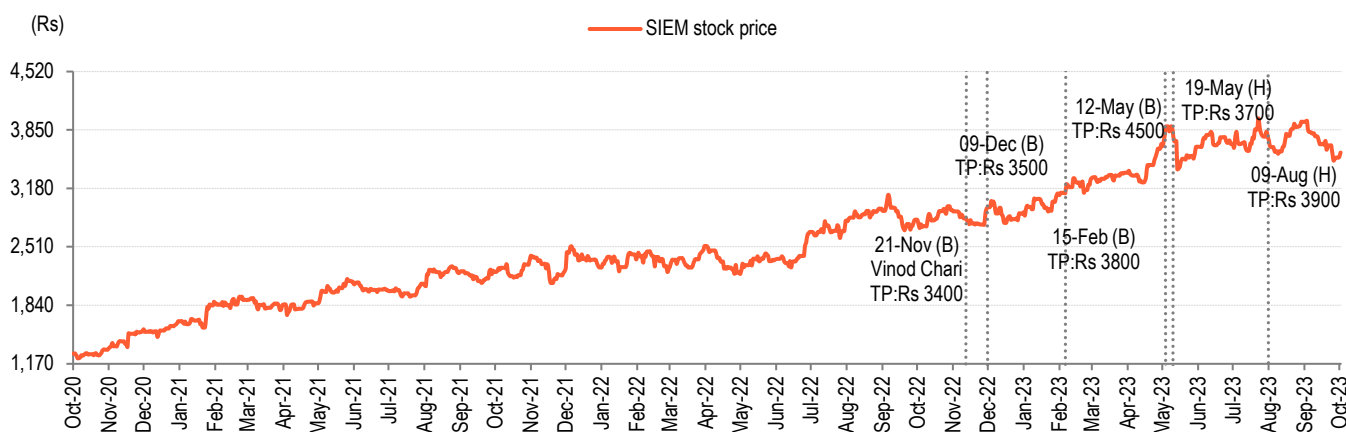
**HOLD** – Expected return from -6% to +15%

**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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