

**BUY**  
 TP: Rs 3,800 | ▲ 22%

**SIEMENS INDIA**

| Capital Goods

| 15 February 2023

**Stellar quarter**

- **Strong Q1 beat aided by margin expansion across segments. C&S Electric turns a corner**
- **Parent’s upward guidance revision for SI and DI businesses signals margin expansion opportunities for India entity**
- **Execution momentum set to continue; retain BUY with a revised TP of Rs 3,800 (vs. Rs 3,500) on rollover**

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**Strong Q1 beat:** SIEM reported a stellar EBITDA margin of 14.9%, up 470bps YoY in Q1FY23 (Sep Y/E) and beating our estimate of 10.7%, aided by margin gains across segments. Execution was steady, fuelling a 13% YoY rise in revenue to Rs 40bn as the smart infrastructure business grew 18% (to Rs 15.2bn) and digital industries grew 29% (to Rs 10.2bn). Net profit surged 85% YoY to Rs 4.6bn (Rs 3.2bn est.)

**C&S turns a corner:** C&S Electric’s revenue grew 14% YoY to Rs 3.3bn. Notably, the company achieved an EBIT margin of 3.4% and EBIT of Rs 114mn, a significant improvement compared to a loss of Rs 15mn in Q1FY22. With its strong low-voltage portfolio, we expect C&S to have a more substantial presence in export markets.

**DI and SI key to margin expansion:** Parent Siemens AG’s focus on software-as-a-service (SaaS) is expected to boost margins of its digital industries (DI) business. Over the next 3-5 years, this move is likely to benefit India operations as the company looks to monetise its software offerings. Further, Siemens AG’s recent upward revision of its DI growth guidance by 2ppt to 12-15% and EBIT margin guidance by 100bps to 20-22% for FY23 is a positive sign for the India arm.

We anticipate growth from digitalisation services in building technologies, alongside higher margins in low-voltage products and a favourable product mix in electrification and switchgears (SF6-free). In addition, C&S Electric’s EBIT turnaround post-acquisition and the parent’s positive revision in growth guidance for the smart infrastructure (SI) business by 1ppt to 9-12% and margin guidance by 50bps to 13.5-14.5% for FY23 should boost outsourcing to low-cost markets such as India.

**Maintain BUY:** SIEM is benefiting from structural tailwinds in its digitalisation and automation businesses, as well as traction in the previously underperforming mobility segment. The company is also well positioned to harness the opportunities from green energy transition. We tweak estimates and roll valuations forward to Dec’24E, translating to a revised TP of Rs 3,800 (vs. Rs 3,500), valuing the stock at an unchanged 57x P/E – a 30% premium to the 5Y average. BUY.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	SIEM IN/Rs 3,125
Market cap	US\$ 13.4bn
Free float	25%
3M ADV	US\$ 15.3mn
52wk high/low	Rs 3,174/Rs 2,150
Promoter/FPI/DII	75%/5%/10%

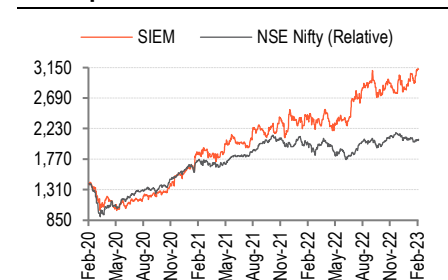
Source: NSE | Price as of 14 Feb 2023

**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	28,965
Adj. net profit (Rs mn)	12,619	17,228	21,853
Adj. EPS (Rs)	35.4	48.4	61.4
Consensus EPS (Rs)	35.4	47.3	61.9
Adj. ROAE (%)	11.5	14.1	16.1
Adj. P/E (x)	88.2	64.6	50.9
EV/EBITDA (x)	66.2	50.4	40.8
Adj. EPS growth (%)	22.5	36.5	26.8

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance**

Y/E Sep (Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
Revenue	40,151	35,504	13.1	46,571	(13.8)
EBITDA	5,992	3,646	64.3	5,159	16.1
EBITDA margin (%)	14.9	10.3	470bps	11.1	380bps
Depreciation	761	806	(5.6)	798	(4.6)
Interest	37	61	(39.3)	132	(72.0)
Other Income	1,017	596	70.6	1,028	(1.1)
PBT	6,211	3,375	84.0	5,257	18.1
Tax	1,584	867	82.7	1,440	10.0
Adjusted PAT	4,627	2,508	84.5	3,817	21.2
Exceptional item	-	-	-	-	-
Reported PAT	4,627	2,508	84.5	3,817	21.2
Adj. PAT margin (%)	11.5	7.1	450bps	8.2	330bps
EPS (Rs)	13.0	7.0	84.5	10.7	21.2

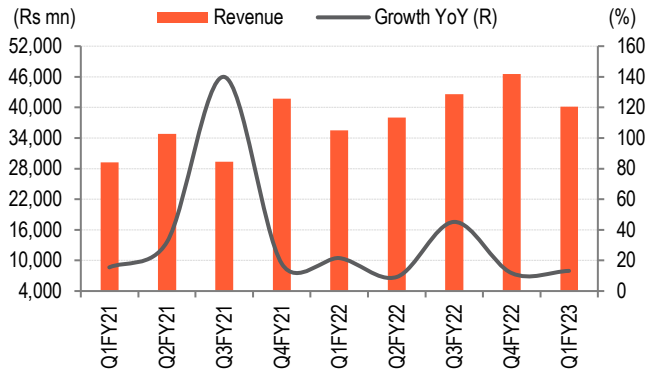
Source: Company, BOBCAPS Research

**Fig 2 – Segmental overview**

Particulars	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
<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	11,601
Growth YoY (%)	(5.2)	14.4	16.0	72.2	(0.8)	7.1	0.4	52.3	3.9	6.5
Smart Infrastructure	9,208	8,821	11,501	10,717	15,268	12,870	14,895	15,060	16,658	15,197
Growth YoY (%)	(14.8)	16.2	48.5	246.6	65.8	45.9	29.5	40.5	9.1	18.1
Mobility	3,288	2,105	2,589	1,441	3,117	3,007	2,951	3,911	4,418	3,838
Growth YoY (%)	(8.4)	1.0	1.3	28.5	(5.2)	42.9	14.0	171.4	41.7	27.6
Digital Industries	6,328	7,699	7,917	6,838	7,839	7,910	8,739	9,962	9,444	10,193
Growth YoY (%)	(12.0)	28.3	50.3	275.9	23.9	2.7	10.4	45.7	20.5	28.9
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	1,331
Margin (%)	12.1	12.6	15.1	8.0	13.2	11.3	13.6	8.5	9.5	11.5
Smart Infrastructure	974	663	988	166	729	600	899	1,072	1,283	1,328
Margin (%)	10.6	7.5	8.6	1.5	4.8	4.7	6.0	7.1	7.7	8.7
Mobility	440	230	290	238	364	304	366	183	378	135
Margin (%)	13.4	10.9	11.2	16.5	11.7	10.1	12.4	4.7	8.6	3.5
Digital Industries	499	802	686	315	527	666	992	828	1,114	2,427
Margin (%)	7.9	10.4	8.7	4.6	6.7	8.4	11.4	8.3	11.8	23.8
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)	-	-

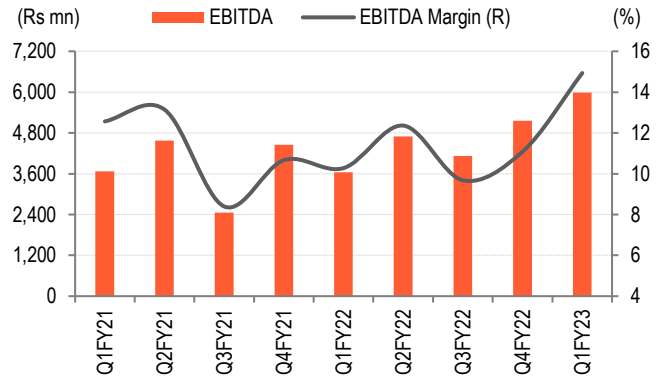
Source: Company, BOBCAPS Research

**Fig 3 – Revenue trend**



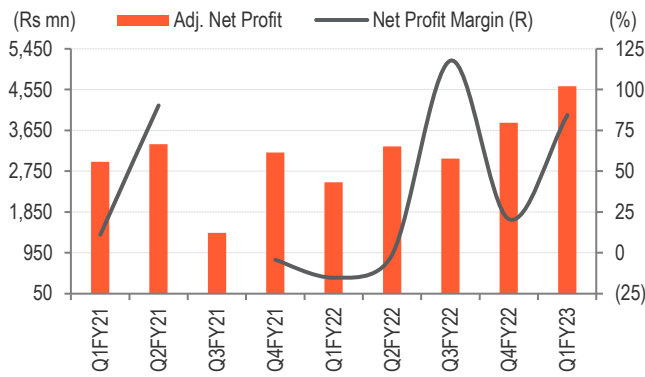
Source: Company, BOBCAPS Research

**Fig 4 – EBITDA trend**



Source: Company, BOBCAPS Research

**Fig 5 – Adj. PAT trend**



Source: Company, BOBCAPS Research

**Fig 6 – Siemens AG: Revision in guidance**

(%)	Comparable revenue growth	Profit margin
Digital Industries	12 - 15 [10 - 13]	20 - 22 [19 - 22]
Smart Infrastructure	9 - 12 [8 - 11]	13.5 - 14.5 [13 - 14]
Mobility	6 - 9	8 - 10

Source: Company, BOBCAPS Research

**Fig 7 – Siemens AG: 3-5-year outlook**

## Siemens

**5–7%**  
Revenue comparable growth

**15–20%**  
Capital efficiency  
ROCE<sup>1</sup>

**1 – comp. revenue growth rate**  
Cash conversion rate (all in)<sup>2</sup>

**High single-digit growth**  
Earnings  
EPS pre PPA

**up to 1.5x**  
Capital structure  
Industrial net debt/EBITDA

**Progressive dividend policy**  
Dividend

### Businesses

	Digital Industries	Smart Infrastructure	Mobility	Siemens Healthineers	Financial Services
Profit margin range <sup>3</sup>	17–23%	11–16%	10–13%	17–21%	RoE <sup>4</sup> 15–20%
Cash conversion rate	1 – comp. revenue growth rate				
Resilience KPI	ARR	Service	Service		

Source: Company, BOBCAPS Research | Note: 1: Excluding defined acquisition-related effects for Varian, 2: Cash conversion rate: FCF/Net income, 3: "Profit" represents EBITA adjusted for amortization of intangible assets not acquired in business combinations; margin range for Siemens Healthineers reflects Siemens' expectation 4 Return on Equity after tax

## Valuation methodology

SIEM is benefiting from structural tailwinds in its digitalisation and automation businesses, as well as traction in the previously underperforming mobility segment. The company is also well positioned to harness the opportunities from green energy transition. We tweak estimates and roll valuations forward to Dec'24E, translating to a revised TP of Rs 3,800 (vs. Rs 3,500), valuing the stock at an unchanged 57x P/E – a 30% premium to the five-year average. Maintain BUY.

**Fig 8 – Revised estimates**

Y/E Sep (Rs mn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	1,96,656	2,33,094	1,96,656	2,32,550	0.0	0.2
EBITDA	23,402	28,965	23,402	28,847	0.0	0.4
PAT	17,228	21,853	17,228	21,764	0.0	0.4
EPS	48.4	61.4	48.4	61.1	0.0	0.4
EBITDAM (%)	11.9	12.4	11.9	12.4	0bps	2bps

Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- slowdown in capex, and
- lower profitability in the mobility business.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ABB India	ABB IN	7.9	3,077	3,220	HOLD
AIA Engineering	AIAE IN	3.2	2,799	3,300	BUY
Cummins India	KKC IN	5.4	1,600	1,600	HOLD
Hitachi Energy	POWERIND IN	1.6	3,053	3,500	BUY
KEC International	KECI IN	1.5	475	500	HOLD
Larsen & Toubro	LT IN	37.2	2,192	2,440	BUY
Siemens India	SIEM IN	13.4	3,125	3,800	BUY
Thermax	TMX IN	3.1	2,139	2,200	HOLD

Source: BOBCAPS Research, NSE | Price as of 14 Feb 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	28,965	37,245
Depreciation	2,974	3,171	3,843	3,963	4,083
EBIT	11,906	14,402	19,559	25,003	33,162
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	29,215	38,261
Income taxes	3,629	4,498	5,804	7,362	9,642
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>21,853</b>	<b>28,619</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>21,853</b>	<b>28,619</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	1,42,823	1,62,856
Shareholders' fund	1,03,550	1,16,178	1,28,238	1,43,535	1,63,568
<b>Total liab. and equities</b>	<b>1,80,152</b>	<b>2,01,090</b>	<b>2,30,250</b>	<b>2,64,449</b>	<b>3,10,732</b>
Cash and cash eq.	51,625	65,841	70,153	82,477	97,544
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>2,64,449</b>	<b>3,10,732</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>23,120</b>	<b>28,958</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)	(6,556)	(8,586)
<b>Cash flow from financing</b>	<b>(5,021)</b>	<b>(3,922)</b>	<b>(5,169)</b>	<b>(6,556)</b>	<b>(8,586)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(14,689)</b>	<b>5,600</b>	<b>4,312</b>	<b>12,324</b>	<b>15,067</b>
<b>Closing cash &amp; cash eq.</b>	<b>51,625</b>	<b>65,841</b>	<b>70,153</b>	<b>82,477</b>	<b>97,544</b>

### Per Share

Y/E 30 Sep (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	28.9	35.4	48.4	61.4	80.4
Adjusted EPS	28.9	35.4	48.4	61.4	80.4
Dividend per share	8.0	10.0	12.0	12.0	12.0
Book value per share	290.7	326.1	360.0	403.0	459.2

### Valuations Ratios

Y/E 30 Sep (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	8.9	7.2	6.0	5.1	4.2
EV/EBITDA	78.6	66.2	50.4	40.8	32.1
Adjusted P/E	108.0	88.2	64.6	50.9	38.9
P/BV	10.8	9.6	8.7	7.8	6.8

### 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	116.8	115.4
EBIT margin (EBIT/Revenue)	9.0	8.9	9.9	10.7	11.7
Asset turnover (Rev./Avg TA)	77.9	84.7	91.2	94.2	98.6
Leverage (Avg TA/Avg Equity)	1.7	1.7	1.8	1.8	1.9
Adjusted ROAE	10.4	11.5	14.1	16.1	18.6

### 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	23.8	28.6
Adjusted EPS	33.8	22.5	36.5	26.8	31.0
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	11.3	10.9	11.9	12.4	13.1
EBIT margin	9.0	8.9	9.9	10.7	11.7
Adjusted profit margin	7.8	7.8	8.8	9.4	10.1
Adjusted ROAE	10.4	11.5	14.1	16.1	18.6
ROCE	10.7	11.9	14.6	16.6	19.2
<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	113.6	150.7
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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### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

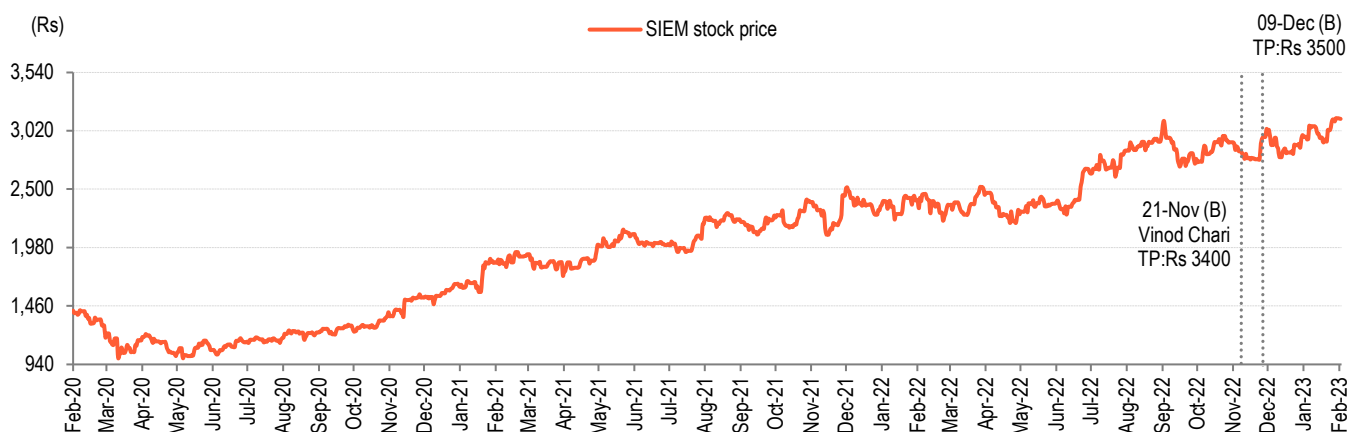
**HOLD** – Expected return from -6% to +15%

**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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