

BUY
 TP: Rs 4,400 | ▲ 21%

SIEMENS INDIA

Capital Goods

29 November 2023

Strong quarter, positive outlook – raise to BUY

- Q4 revenue grew at robust 25% YoY with 100bps EBITDA margin expansion and 50% rise in PAT to Rs 5.7bn
- Management believes high public spending on infrastructure, pent-up private capex and rising decarbonisation will spur growth
- With proposed LV motors sale on hold, it’s business as usual for SIEM; upgrade to BUY with revised TP of Rs 4,400 (vs. Rs 3,900)

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Strong Q4; fresh capex announced: SIEM reported strong revenue growth of 25% YoY in Q4FY23 (Y/E Sep) accompanied by EBITDA margin expansion of 100bps to 12.1% and PAT growth of 50% YoY to Rs 5.7bn. The company’s order backlog swelled 165% YoY to Rs 455.2bn (+14% when adjusted for a one-time rail order), while order inflows grew 12% YoY to Rs 45bn. Management has announced capex of Rs 4.2bn by H2FY26 to expand capacity in power transformers (from 15,000MVA to 30,000MVA) and vacuum interpreters (from 40,000 to 70,000 VI tubes).

All-round growth: SIEM saw double-digit growth across segments during the quarter, with mobility posting the highest increase of 61% YoY. Margins expanded YoY across segments for FY23, except mobility which saw a 280bps YoY decline to 5.4%, likely due to the start of its Rs 255bn rail order.

Public and private capex to spur growth: SIEM expects the 33% hike in public capital outlay for FY24 to Rs 10tn, including rail expenditure of Rs 2.4tn and production-linked incentive (PLI) outlay of Rs 300bn, to create a positive capex environment, as outlined in its **Innovation Day** in October. Likewise, the company pointed to substantial on-ground interest from private companies and is optimistic about their conversion to orders.

Hive-off proposals key to watch: SIEM’s plan to sell its low-voltage (LV) motors business for Rs 22bn has been rejected by minority shareholders, leaving it with two options – revise the sale consideration or continue to run the business as is. Another proposal that will be closely monitored by investors is the planned demerger of the energy business by FY25 that is expected to create a leaner digital and automation division, along the lines of ABB.

Upgrade to BUY: SIEM’s base business remains strong and enjoys a robust outlook as diverse customer segments enable it to play the capex cycle. We raise FY24/FY25 EPS estimates by 7% each to bake in the FY23 print and roll valuations to Sep’25E, leading to a higher TP of Rs 4,400 (from Rs 3,900). With the proposed LV motors sale on hold, it’s business as usual for SIEM for now and hence we revert to our BUY rating from HOLD. We continue to value the stock at 52x P/E, in line with the 5Y mean.

Key changes

Target	Rating
▲	▲

Ticker/Price	SIEM IN/Rs 3,647
Market cap	US\$ 15.8bn
Free float	25%
3M ADV	US\$ 13.4mn
52wk high/low	Rs 4,069/Rs 2,726
Promoter/FPI/DII	75%/5%/10%

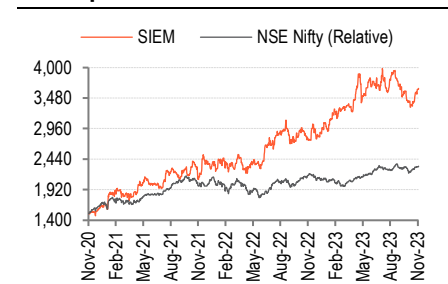
Source: NSE | Price as of 28 Nov 2023

Key financials

Y/E 30 Sep	FY23P	FY24E	FY25E
Total revenue (Rs mn)	1,95,538	2,30,779	2,78,691
EBITDA (Rs mn)	24,872	31,167	38,348
Adj. net profit (Rs mn)	19,619	24,357	29,972
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)	66.2	53.3	43.3
EV/EBITDA (x)	54.8	44.1	36.2
Adj. EPS growth (%)	55.5	24.1	23.1

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

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Revenue	58,077	46,571	24.7	48,732	19.2	1,95,538	1,61,378	21.2
EBITDA	7,002	5,159	35.7	5,666	23.6	24,872	17,573	41.5
EBITDA margin (%)	12.1	11.1	100bps	11.6	40bps	12.7	10.9	180bps
Depreciation	786	798	(1.5)	876	(10.3)	3,208	3,171	1.2
Interest	49	132	(62.9)	43	14.0	228	363	(37.2)
Other Income	1,455	1,028	41.5	1,324	9.9	4,962	3,078	61.2
PBT	7,622	5,257	45.0	6,071	25.5	26,398	17,117	54.2
Tax	1,905	1,440	32.3	1,513	25.9	6,778	4,498	50.7
Adjusted PAT	5,716	3,817	49.8	4,558	25.4	19,620	12,619	55.5
Exceptional item	-	-	-	-	-	-	-	-
Reported PAT	5,716	3,817	49.8	4,558	25.4	19,620	12,619	55.5
Adj. PAT margin (%)	9.8	8.2	160bps	9.4	50bps	10.0	7.8	220bps
EPS (Rs)	16.1	10.7	49.8	12.8	25.4	55.1	35.4	55.5

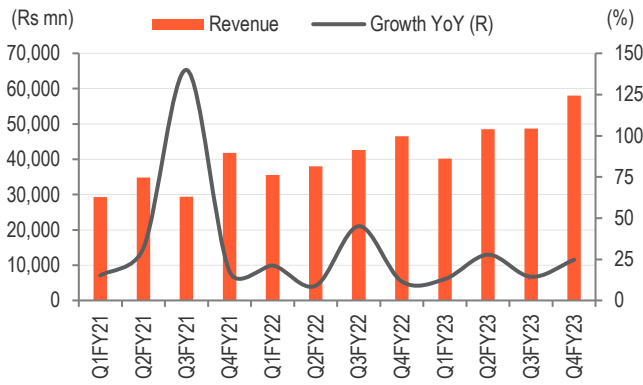
Source: Company, BOBCAPS Research

Fig 2 – Segment-wise performance

Particulars	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Revenue (Rs mn)												
Energy	10,169	11,913	9,549	15,710	10,892	11,958	14,544	16,316	11,601	15,554	15,181	18,467
Growth YoY (%)	14.4	16.0	72.2	(0.8)	7.1	0.4	52.3	3.9	6.5	30.1	4.4	13.2
Smart Infrastructure	8,821	11,501	10,717	15,268	12,870	14,895	15,060	16,658	15,197	17,249	17,206	21,092
Growth YoY (%)	16.2	48.5	246.6	65.8	45.9	29.5	40.5	9.1	18.1	15.8	14.2	26.6
Mobility	2,105	2,589	1,441	3,117	3,007	2,951	3,911	4,418	3,838	4,864	5,776	7,124
Growth YoY (%)	1.0	1.3	28.5	(5.2)	42.9	14.0	171.4	41.7	27.6	64.8	47.7	61.2
Digital Industries	7,699	7,917	6,838	7,839	7,910	8,739	9,962	9,444	10,193	11,407	11,273	11,903
Growth YoY (%)	28.3	50.3	275.9	23.9	2.7	10.4	45.7	20.5	28.9	30.5	13.2	26.0
EBIT (Rs mn)												
Energy	1,277	1,804	765	2,072	1,232	1,623	1,243	1,550	1,331	1,766	1,585	2,191
Margin (%)	12.6	15.1	8.0	13.2	11.3	13.6	8.5	9.5	11.5	11.4	10.4	11.9
Smart Infrastructure	663	988	166	729	600	899	1,072	1,283	1,328	1,947	1,737	2,439
Margin (%)	7.5	8.6	1.5	4.8	4.7	6.0	7.1	7.7	8.7	11.3	10.1	11.6
Mobility	230	290	238	364	304	366	183	378	135	423	371	236
Margin (%)	10.9	11.2	16.5	11.7	10.1	12.4	4.7	8.6	3.5	8.7	6.4	3.3
Digital Industries	802	686	315	527	666	992	828	1,114	2,427	1,277	1,081	1,347
Margin (%)	10.4	8.7	4.6	6.7	8.4	11.4	8.3	11.8	23.8	11.2	9.6	11.3

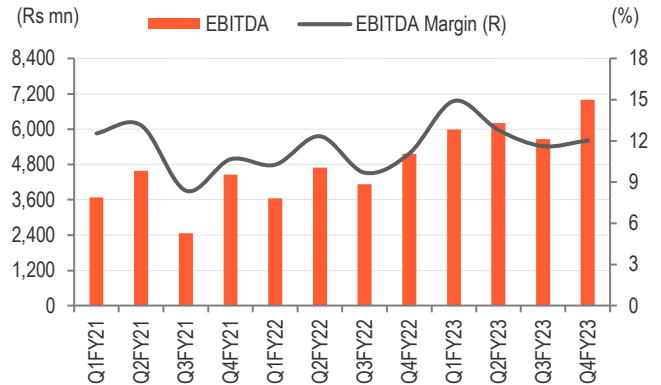
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth



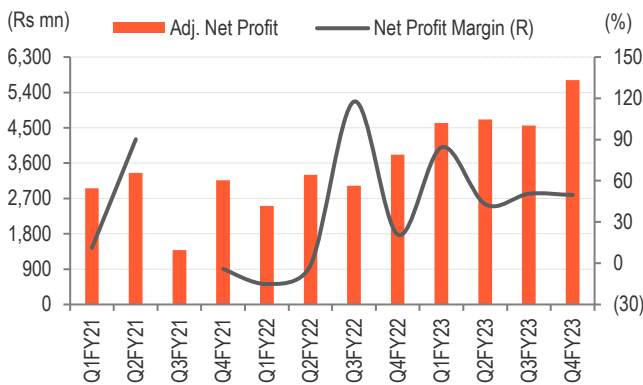
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth



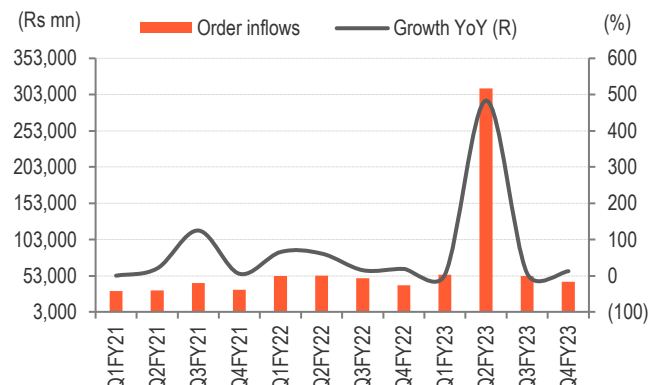
Source: Company, BOBCAPS Research

Fig 5 – Adj. PAT growth



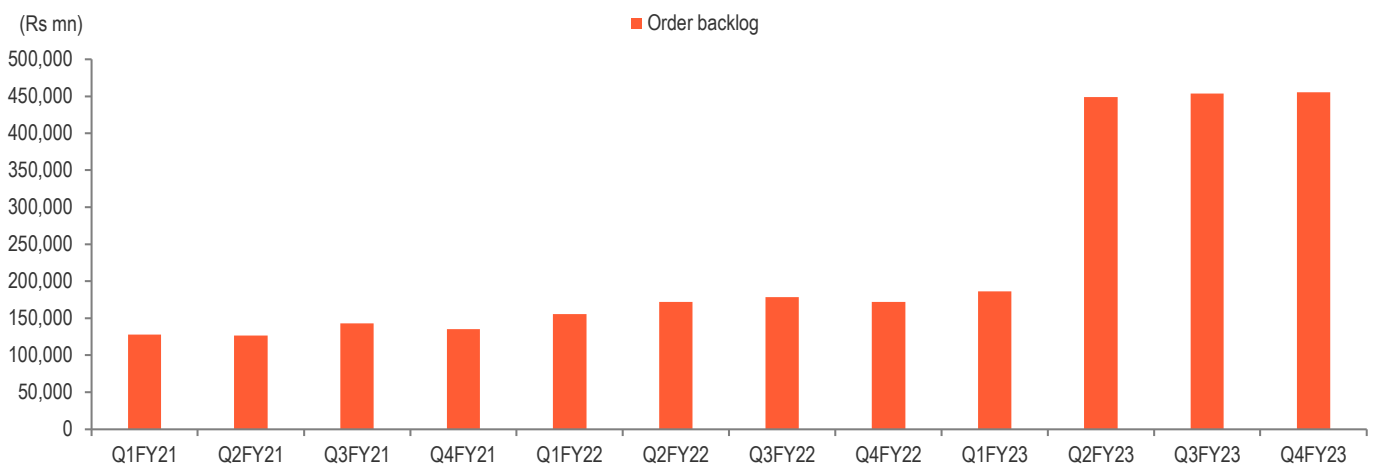
Source: Company, BOBCAPS Research

Fig 6 – Order inflows



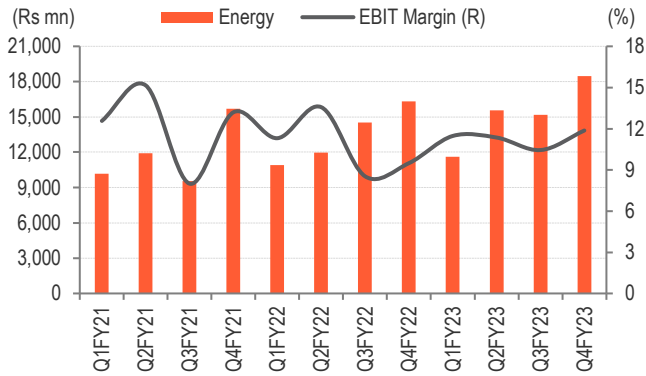
Source: Company, BOBCAPS Research

Fig 7 – Order backlog



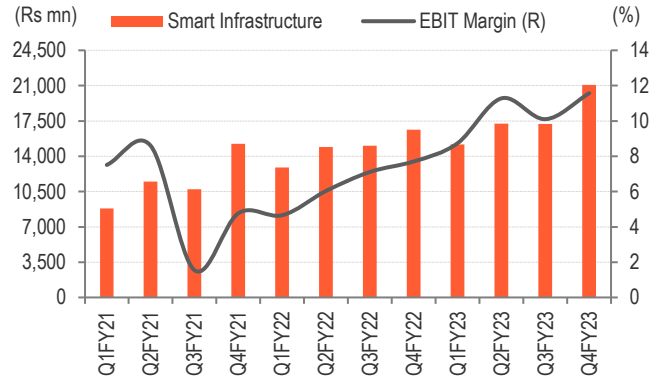
Source: Company, BOBCAPS Research

Fig 8 – Energy segment performance



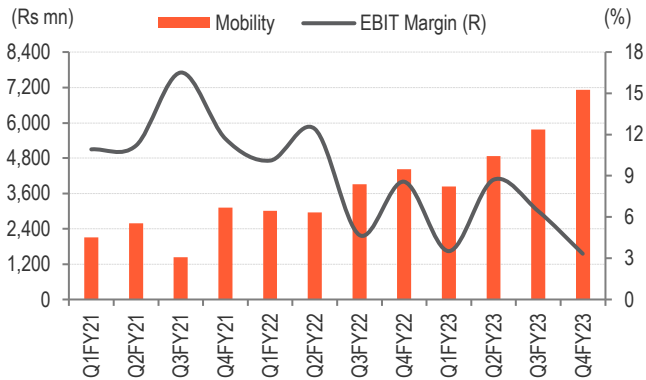
Source: Company, BOBCAPS Research

Fig 9 – Smart infrastructure segment performance



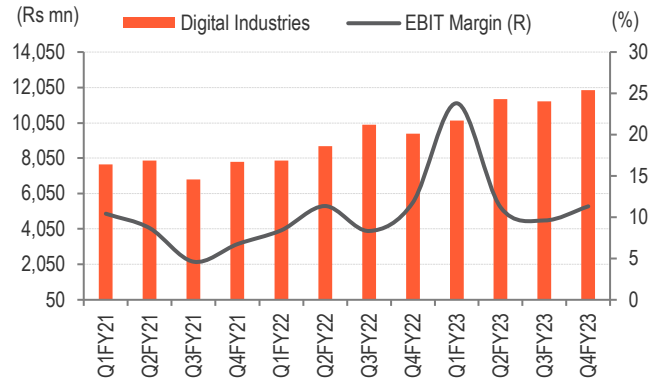
Source: Company, BOBCAPS Research

Fig 10 – Mobility segment performance



Source: Company, BOBCAPS Research

Fig 11 – Digital industries segment performance



Source: Company, BOBCAPS Research

Valuation methodology

SIEM is benefiting from structural tailwinds in its digitalisation 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.

We raise our FY24/FY25 EPS estimates by 7% each to bake in the FY23 print and roll valuations forward to Sep'25E, leading to a higher TP of Rs 4,400 (from Rs 3,900). With the proposed LV motors sale on hold, it's business as usual for SIEM and hence we revert to our BUY rating – the hive-off being the only reason for **our downgrade to HOLD in May**. At the same time, considering the overhang of potential corporate action related to this sale, we keep our multiple at 52x, in line with the stock's five-year average as opposed to the premium assigned earlier.

Fig 12 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	2,30,779	2,78,691	2,28,441	2,78,014	1.0	0.2
EBITDA	31,167	38,348	30,236	36,573	3.1	4.9
PAT	24,357	30,150	22,803	28,117	6.8	7.2
EPS	68.4	84.7	64.1	79.0	6.8	7.2
EBITDAM (%)	13.5	13.8	13.2	13.2	27bps	61bps

Source: Company, BOBCAPS Research

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.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ABB India	ABB IN	11.0	4,255	4,700	HOLD
AIA Engineering	AIAE IN	4.1	3,545	4,200	BUY
Cummins India	KKC IN	6.3	1,875	2,200	BUY
Hitachi Energy	POWERIND IN	2.4	4,743	4,200	HOLD
KEC International	KECI IN	1.8	568	670	HOLD
Larsen & Toubro	LT IN	52.1	3,050	3,500	BUY
Siemens India	SIEM IN	15.8	3,647	4,400	BUY
Thermax	TMX IN	3.7	2,575	3,000	HOLD

Source: BOBCAPS Research, NSE | Price as of 28 Nov 2023

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	2,78,691
EBITDA	14,880	17,573	24,872	31,167	38,348
Depreciation	2,974	3,171	3,208	3,872	4,352
EBIT	11,906	14,402	21,664	27,295	33,997
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	40,339
Income taxes	3,629	4,498	6,778	8,425	10,367
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	29,972
Adjustments	0	0	0	0	0
Adjusted net profit	10,298	12,619	19,619	24,357	29,972

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	1,74,795
Shareholders' fund	1,03,550	1,16,178	1,30,957	1,50,930	1,75,507
Total liab. and equities	1,80,152	2,01,090	2,21,769	2,70,824	3,20,293
Cash and cash eq.	51,625	65,841	76,507	89,340	1,04,193
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	3,20,293

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	30,779
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)	(10,532)
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)	(5,395)
Cash flow from financing	(5,021)	(3,922)	(4,499)	(4,384)	(5,395)
Chg in cash & cash eq.	(14,689)	5,600	1,913	12,833	14,853
Closing cash & cash eq.	51,625	65,841	76,507	89,340	1,04,193

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	492.8

Valuations Ratios

Y/E 30 Sep (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	10.3	8.4	7.0	6.0	5.0
EV/EBITDA	91.1	76.8	54.8	44.1	36.2
Adjusted P/E	126.1	102.9	66.2	53.3	43.3
P/BV	12.5	11.2	9.9	8.6	7.4

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	23.1
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	18.4
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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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

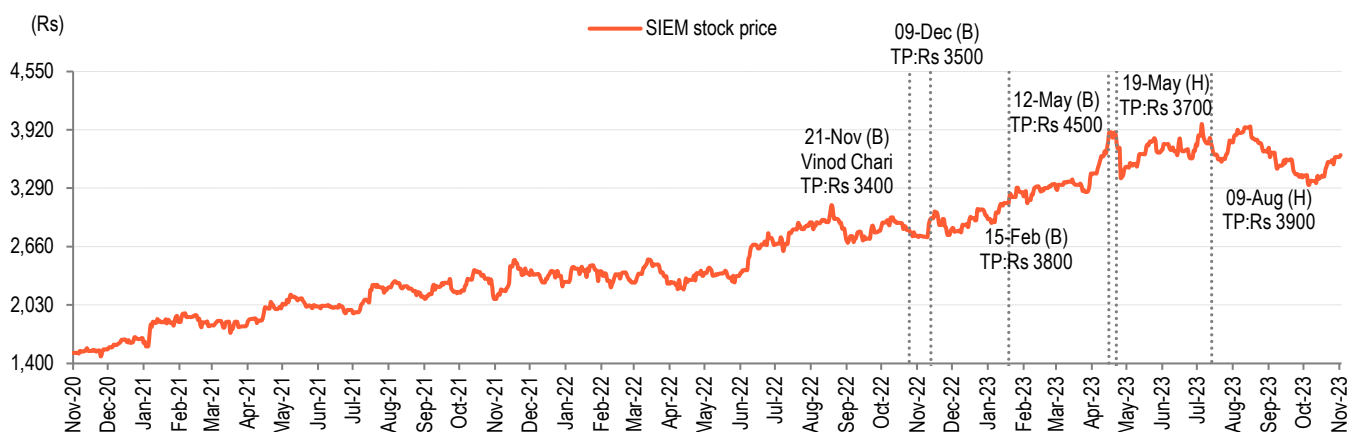
HOLD – Expected return from -6% to +15%

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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