

Challenges persist

Owing to slowing Private/Public capex and tight liquidity environment, SIL delivered 8/7/5% Rev/EBITDA/APAT miss. We have upgraded FY19/20E EPS by (1)/3.7%. Maintain NEU on Siemens India Ltd. (SIL) with a TP of Rs 1,197/sh (vs. Rs 1,165/sh earlier).

HIGHLIGHTS OF THE QUARTER

- **Muted performance:** SIL posted a 4.1% YoY revenue growth primarily led by the Mobility/POC business. The large revenue contributors - Gas & Power and Smart Infrastructure growth remained flat YoY.
- **New business structure to bring synergies:** SIL, in line with its Parent's Vision 2020+, has re-organized business verticals to four vs. five earlier. The intent is to achieve business synergies and improve product/services delivery to clients. Though the new reporting started from 3QFY19, it includes Mobility Business reporting (sale on hold).
- **Market liquidity remains a concern:** As Liquidity continues to remain a cause of concern for the industry, with delayed payments and inventory off-take slowing down, the company continued to focus on

driving short term/digitalization businesses with a clear focus on working capital management.

- **Mobility business sale put on hold for time being:** During Feb-2018, the company reached an agreement with its parent Siemens AG for the sale of its Mobility and Mechanical Drives businesses. However, the sale has now been put on hold for the time being. Earlier European Competition Commission had rejected Mobility business sale by Siemens AG to Alstom.

STANCE

SIL faces headwinds on back of slowing Pvt/Public capex and tight liquidity environment. The company needs to bank on less cyclical segments like Smart Infrastructure. Government investment in Gas & Power is expected to recover as the installed base ages and upgrades are needed. Meanwhile, Metro projects will drive the Mobility segment. While Mobility business sale being put on hold for time is a minor reprieve we await clarity on highest revenue contributing segment Power & Gas. We maintain NEU. Key risks (1) Delays in Government capex recovery, (2) Slowdown in private investments, (3) INR depreciation, and (4) Any adverse corporate action.

Financial Summary

(Rs mn, Sep year-end)	3QFY19	3QFY18	YoY (%)	2QFY19	QoQ (%)	FY17	FY18	FY19E	FY20E
Net Revenues	31,984	30,730	4.1	35,496	(9.9)	110,148	127,251	136,666	155,586
EBITDA	3,537	3,023	17.0	4,105	(13.8)	10,512	13,161	15,224	17,103
APAT	2,481	2,044	21.4	2,808	(11.6)	6,911	8,939	10,672	12,304
Diluted EPS (Rs)	7.0	5.7	21.4	7.9	(11.6)	19.4	25.1	30.0	34.6
P/E (x)						56.7	43.8	36.7	31.8
EV / EBITDA (x)						33.4	27.0	23.2	20.4
RoE (%)						9.5	11.2	12.3	13.0

Source: Company, HDFC sec Inst Research

INDUSTRY	CAPITAL GOODS
CMP (as on 7 Aug 2019)	Rs 1,101
Target Price	Rs 1,197
Nifty	10,856
Sensex	36,691

KEY STOCK DATA	
Bloomberg	SIEM IN
No. of Shares (mn)	356
MCap (Rs bn) / (\$ mn)	392/5,530
6m avg traded value (Rs mn)	627

STOCK PERFORMANCE (%)			
52 Week high / low	Rs 1,367/841		
	3M	6M	12M
Absolute (%)	(1.9)	5.1	6.9
Relative (%)	2.2	5.8	9.4

SHAREHOLDING PATTERN (%)		
	Mar-19	Jun-19
Promoters	75.0	75.0
FIs & Local MFs	11.3	11.82
FPIs	2.3	2.06
Public & Others	11.4	11.12
Pledged Shares	-	-

Source : BSE

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Revenue – Rs 31.9bn (+4/-10% YoY/QoQ, 8% miss)

EBITDA – Rs 3.5bn (+17/-14% YoY/QoQ, 7% miss) with a margin of 11.1% (+122/-51bps YoY/QoQ)

APAT: Rs 2.5bn (+21/-12% YoY/QoQ, 5% miss)

Other operating income during the quarter was Rs 825mn – incentives under Merchandise Exports from India Scheme for licensing application made in the previous financial year ending September 2018.

We change our estimates based on the 9MFY19 performance of the company. Our FY19/20E EPS get revised (0.9)%/3.7%

Quarterly Financials Snapshot

(Rs mn, Sep year-end)	3QFY19	3QFY18	YoY (%)	2QFY19	QoQ (%)
Net Sales	31,984	30,730	4.1	35,496	(9.9)
Material Cost	20,901	20,388	2.5	24,403	(14.4)
Employee Cost	3,973	3,799	4.6	4,235	(6.2)
Other Expenses	3,573	3,520	1.5	2,753	29.8
EBITDA	3,537	3,023	17.0	4,105	(13.8)
Depreciation	512	500	2.4	571	(10.3)
EBIT	3,025	2,523	19.9	3,534	(14.4)
Interest	2	4	(50.0)	24	(91.7)
Other Income (Incl. EO)	825	692	19.2	830	(0.6)
PBT	3,848	3,211	19.8	4,340	(11.3)
Tax	1,367	1,167	17.1	1,532	(10.8)
RPAT	2,481	2,044	21.4	2,808	(11.6)
EO Items	-	-	-	-	-
APAT	2,481	2,044	21.4	2,808	(11.6)

Source: Company, HDFC sec Inst Research

Margin Analysis

Margin Analysis	3QFY19	3QFY18	YoY (bps)	2QFY19	QoQ (bps)
Material Cost (% net sales)	65.3	66.3	(99.7)	68.7	(340.0)
Employee Cost (% net sales)	12.4	12.4	5.9	11.9	49.1
Other Expenses (% net sales)	17.1	17.3	(17.0)	11.3	581.3
EBITDA Margin (%)	11.1	9.8	122.1	11.6	(50.6)
Tax rate (%)	35.5	36.3	(81.9)	35.3	22.5
APAT Margin (%)	7.8	6.7	110.6	7.9	(15.4)

Source: Company, HDFC sec Inst Research

Change in estimates

Rs mn	FY19E New	FY19E Old	(% Change)	FY20E New	FY20E Old	(% Change)
Net Revenues	136,666	139,739	(2.2)	155,586	153,720	1.2
EBITDA	15,399	15,126	1.8	17,103	16,446	4.0
Margins (%)	11.3	10.8	44.3bps	11.0	10.7	29.4bps
APAT	10,672	10,769	(0.9)	12,304	11,868	3.7

Source: Company, HDFC sec Inst Research

The company began segmental reporting based on the market oriented structure as a part of its vision 2020+

The intent is to achieve business synergies and improve product/services delivery to clients

High growth was witnessed in Mobility and Portfolio of Companies segments

The profitability is driven by Gas and Power and Mobility business

Segmental Revenue

(Rs mn, Sep year-end)	3QFY19	3QFY18	YoY (%)	2QFY19	QoQ(%)
Revenues (Rs mn)					
Gas and Power	11,314	11,436	(1.1)	12,588	(10.1)
Smart infrastructure	9,218	9,106	1.2	9,958	(7.4)
Mobility	2,490	2,132	16.8	3,380	(26.3)
Digital Infrastructure	6,278	5,931	5.9	7,009	(10.4)
Portfolio of Companies	2,951	2,275	29.7	3,004	(1.8)
Others	329	347	(5.2)	331	(0.6)
Total (Ex intersegment)	32,580	31,227	4.3	36,270	(100.0)
EBIT (Rs mn)					
Gas and Power	1,543	997	54.8	1,603	(3.7)
Smart infrastructure	717	877	(18.2)	1,000	(28.3)
Mobility	297	161	84.5	610	(51.3)
Digital Infrastructure	421	414	1.7	505	(16.6)
Portfolio of Companies	(173)	(19)	810.5	(203)	(14.8)
Others	220	93	136.6	14	1,471.4
Total (Ex intersegment)	3,025	2,523	19.9	3,529	(99.4)
EBIT margins (%)					
Gas and Power	13.6	8.7	492	12.7	90
Smart infrastructure	7.8	9.6	(185)	10.0	(226)
Mobility	11.9	7.6	438	18.0	(612)
Digital Infrastructure	6.7	7.0	(27)	7.2	(50)
Portfolio of Companies	(5.9)	(0.8)	(503)	(6.8)	90
Others	66.9	26.8	4,007	4.2	6,264
Total	9.3	8.1	121	9.7	(44)

Source: Company, HDFC sec Inst Research

With lack of clarity on hiving off its largest business division (Gas & Power), Mobility and mechanical drives business, we are constrained to value Siemens at a relatively low multiple

Though during 3QFY19, SIL management highlighted that sale of Mobility and Mechanical drives business is not being pursued for time being. We believe this has some connotation to European regulator rejecting the Alstom deal. Final clarity is still awaited on this though this quarter announcement is a minor reprieve

Recommend NEU with a TP of Rs 1,197/sh (35x Sep-FY20E EPS) vs. Rs 1,165/sh earlier. Price increase largely on account of 3.7% increase in FY20E EPS estimate

Valuation

Neutral – TP of Rs 1,197/sh

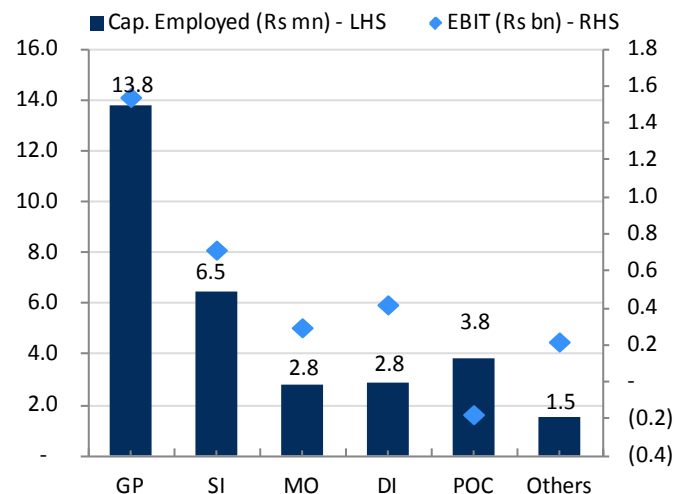
- While SIL is well placed to monetize its strength in digitalization of Manufacturing/Smart Infra, we feel the positives are well captured in the current valuations. A delay in capex recovery or private investments can also dampen the inflows.
- SIL board of directors at the meeting held on 21st Feb 2018 had in principle agreed to sell Mobility and Mechanical drives business to Siemens AG Germany. Subsequently the deal with Alstom was rejected by European Competition Commission. However, this

transaction has been put on a back burner for the time being. We await more clarity on management on same, though it's a partial reprieve.

- **We value Siemens' standalone operations at 35x Sep-FY20E earnings and arrive at a TP of Rs 1,197/sh (vs. Rs 1,165/sh earlier). With lack of clarity on monetization of its largest business division (Gas & Power) as well as the Mobility division (though currently not being pursued for time being), we maintain NEUTRAL.**

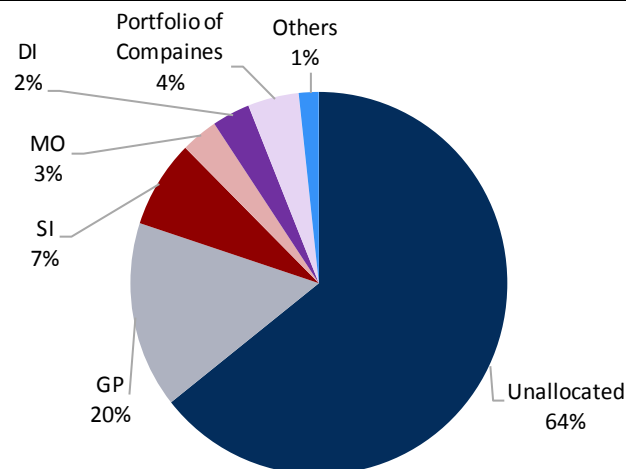
Despite a difficult quarter, with the company focused liquidity management, the company secured orders worth Rs 30.2bn (+6%/-17% YoY/QoQ)

3QFY19 Segmental EBIT



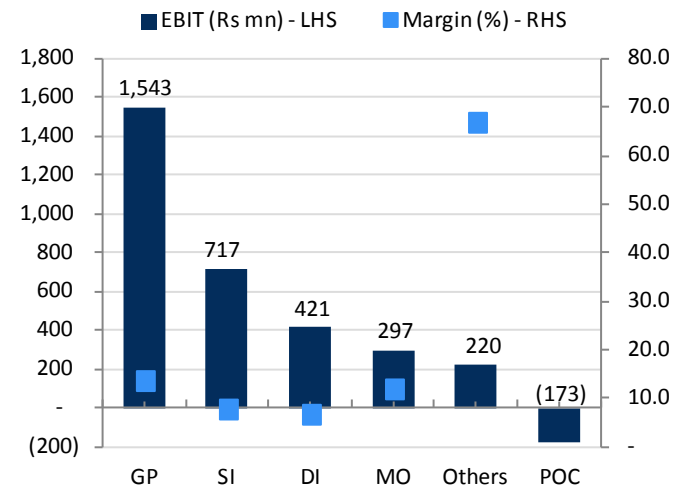
Source : Company, HDFC sec Inst Research; GP – Gas and Power, SI: Smart Infrastructure DI – Digital Infrastructure, MO – Mobility, POC –Portfolio of Companies

Capital Employed – 3QFY19 (Rs 87.2bn)



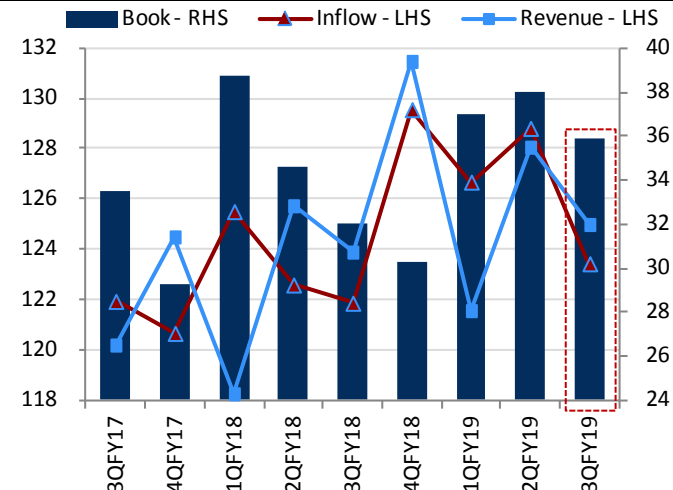
Source : Company, HDFC sec Inst Research *Excl. Inter Segmental & Unallocable

3QFY19 Segmental Margins (%)



Source : Company, HDFC sec Inst Research; GP – Gas and Power, SI: Smart Infrastructure DI – Digital Infrastructure, MO – Mobility, POC –Portfolio of Companies

Quarterly Order Book Movement (Rs bn)

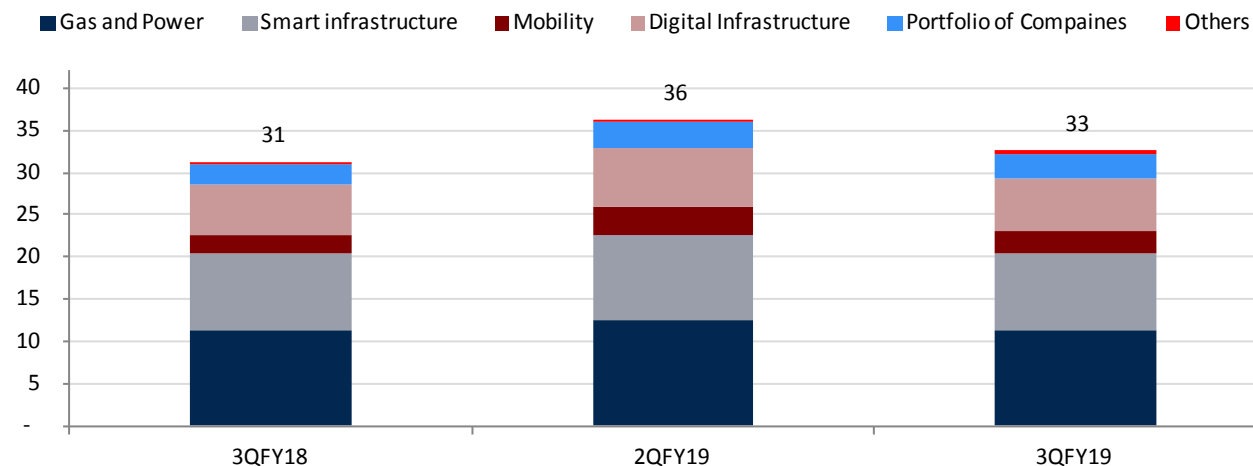


Source : Company, HDFC sec Inst Research *Excl. Inter Segmental

Gas and Power business have shown a 492bps improvement in EBIT margin YoY.

Though Other business segment shown a EBIT margin of 66%, it is not a significant contributor to the overall EBIT margin due to its revenue contribution of ~1% in 3QFY19

Quarterly Segmental Revenue Trend (Rs bn)



Source : Company, HDFC sec Inst Research

Quarterly Segmental EBIT Margins Trend

%	3QFY18	2QFY19	3QFY19
Gas and Power	8.7	12.7	13.6
Smart infrastructure	9.6	10.0	7.8
Mobility	7.6	18.0	11.9
Digital Infrastructure	7.0	7.2	6.7
Portfolio of Companies	(0.8)	(6.8)	(5.9)
Others	26.8	4.2	66.9
Total	8.1	9.7	9.3

Source : Company, HDFC sec Inst Research

Vision 2020+: Market Oriented Set Up Of New Structure

Old Divisions	
PG	Power Generation Products & Services
	Power Generation Services
EM	Transmission Solutions
	HV Products, Transformers
	Digital Grid
BT	Medium Voltage & Systems, Low Voltage & Products
	Solution & Services
DF	Control Products & Systems
	Control Products
	Factory Automation
PD	Motion Control
	Customer Services
	Process Automation
	Large Drives
	Mechanical Drives
	Process Solutions



New Divisions	
GP	Power Generation Operations
	Power Generation
	Transmission
	EPC Projects
SI	Service & Digital
	Regional Solution & Services
	Digital Grid
	Distribution Systems
	Low Voltage Products
DI	Control Products
	Building Products
	Factory Automation
	Motion Control
POC	Process Automation
	Customer Services
	Large Drives
	Mechanical Drives
	Process Solutions

Income Statement: (Rs mn)

Year ending September	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	108,094	110,148	127,251	136,666	155,586
Growth (%)	2.8	1.9	15.5	7.4	13.8
Material Expenses	71,812	73,504	85,864	92,500	103,400
Employee Expenses	14,139	13,926	14,487	16,614	18,152
Other Operating Expenses	11,940	12,205	13,739	12,327	16,931
EBIDTA	10,203	10,512	13,161	15,224	17,103
EBIDTA (%)	9.4	9.5	10.3	11.1	11.0
EBIDTA Growth (%)	4.8	3.0	25.2	15.7	12.3
Depreciation	2,263	1,967	1,967	2,195	2,315
EBIT	7,940	8,546	11,194	13,029	14,788
Other Income (Incl. EO Items)	31,568	8,222	2,800	3,351	3,942
Interest	91	77	82	87	88
PBT	39,417	16,691	13,912	16,293	18,642
Tax	10,091	5,355	4,973	5,621	6,338
RPAT	29,326	11,336	8,939	10,672	12,304
EO items (net of tax)	(22,824)	(4,425)	-	-	-
APAT	6,502	6,911	8,939	10,672	12,304
APAT Growth (%)	12.3	6.3	29.3	19.4	15.3
EPS	18	19.4	25.1	30.0	34.6
EPS Growth (%)	12.3	6.3	29.3	19.4	15.3

Source: Company, HDFC sec Inst Research

Balance Sheet: (Rs mn)

As at September	FY16	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	712	712	712	712	712
Reserves	67,496	76,335	82,342	89,481	97,863
Total Shareholders Funds	68,208	77,047	83,054	90,193	98,575
Total Debt	-	-	-	-	-
Other Non Current Liabilities	2,394	2,573	2,750	3,025	3,328
Deferred Taxes	(3,351)	(2,442)	(2,665)	(2,665)	(2,665)
TOTAL SOURCES OF FUNDS	67,250	77,178	83,139	90,553	99,238
APPLICATION OF FUNDS					
Net Block	13,052	13,344	13,514	13,419	13,104
CWIP	791	1,430	624	624	624
Investments	550	550	550	550	550
Other Non Current Assets	8,632	10,855	15,935	17,529	19,281
Total Non-current Assets	23,025	26,179	30,623	32,122	33,559
Inventories	9,993	10,165	11,389	12,925	14,448
Debtors	30,059	34,156	36,504	40,012	46,387
Cash & bank balances	35,094	40,713	36,457	38,550	42,423
Other Current Assets	18,017	17,576	24,854	27,588	29,492
Total Current Assets	93,163	102,610	109,204	119,075	132,750
Creditors	21,920	26,556	30,303	31,678	35,411
Other Current Liabilities & Provns	27,019	25,054	26,385	28,966	31,660
Total Current Liabilities	48,939	51,611	56,688	60,644	67,071
Net Current Assets	44,224	50,999	52,516	58,431	65,679
TOTAL APPLICATION OF FUNDS	67,250	77,178	83,139	90,553	99,238

Source: Company, HDFC sec Inst Research

Cash Flow: Standalone (Rs mn)

Year ending September	FY16	FY17	FY18	FY19E	FY20E
PBT	39,416	16,691	13,051	16,293	18,642
Non-operating & EO items	(31,474)	(6,826)	(4,063)	(3,351)	(3,942)
Interest expenses	91	77	82	87	88
Depreciation	2,264	1,966	1,967	2,195	2,315
Working Capital Change	(1,720)	1,744	(8,361)	(5,141)	(4,825)
Tax paid	(3,493)	(8,114)	(4,973)	(5,621)	(6,338)
OPERATING CASH FLOW (a)	5,084	5,538	(2,297)	4,462	5,940
Capex	(2,874)	3,289	(1,788)	(2,100)	(2,000)
Free cash flow (FCF)	2,210	8,827	(4,085)	2,362	3,940
Investments	26,721	(2,747)	1,196	-	-
Non operating income	1,327	2,137	1,769	3,351	3,942
INVESTING CASH FLOW (b)	25,174	2,679	1,177	1,251	1,942
Share capital Issuance	-	-	-	-	-
Dividend payment	(16,073)	(2,572)	(3,054)	(3,533)	(3,921)
Debt Issuance	-	-	-	-	-
Interest expenses	(50)	(26)	(82)	(87)	(88)
FINANCING CASH FLOW (c)	(16,123)	(2,598)	(3,136)	(3,620)	(4,009)
NET CASH FLOW (a+b+c)	14,135	5,619	(4,256)	2,093	3,873
Opening Cash & Equivalents	20,959	35,094	40,713	36,457	38,550
Closing Cash & Equivalents	35,094	40,713	36,457	38,550	42,423

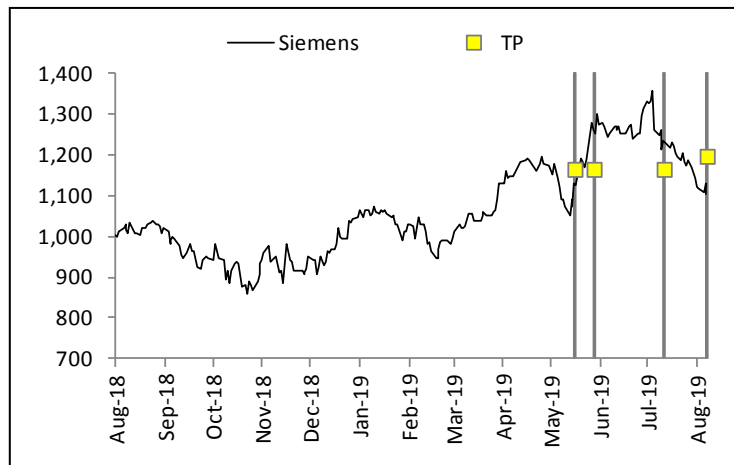
Source: Company, HDFC sec Inst Research

Key Ratios: Standalone

	FY16	FY17	FY18	FY19E	FY20E
PROFITABILITY (%)					
GPM	33.6	33.3	32.5	32.3	33.5
EBITDA Margin	9.4	9.5	10.3	11.1	11.0
EBIT Margin	7.3	7.8	8.8	9.5	9.5
APAT Margin	6.0	6.3	7.0	7.8	7.9
RoE	10.9	9.5	11.2	12.3	13.0
Core RoCE	21.6	18.6	18.7	18.6	19.3
RoCE	11.0	9.6	11.2	12.4	13.1
EFFICIENCY					
Tax Rate (%)	25.6	32.1	35.7	34.5	34.0
Asset Turnover (x)	3.6	3.4	3.7	3.7	4.0
Inventory (days)	34	34	33	35	34
Debtors (days)	101	113	105	107	109
Payables (days)	74	88	87	85	83
Cash Conversion (days)	61	59	50	57	60
Other Current Assets (days)	61	58	71	74	69
Other Current Liab (days)	91	83	76	77	74
Net Working Capital Cycle (Days)	31	34	46	53	55
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Net D/E	(0.5)	(0.5)	(0.4)	(0.4)	(0.4)
Interest Coverage	87.7	110.8	136.5	149.8	168.0
PER SHARE DATA					
EPS (Rs/sh)	18.3	19.4	25.1	30.0	34.6
CEPS (Rs/sh)	24.6	24.9	30.6	36.1	41.1
DPS (Rs/sh)	45.1	7.2	8.6	9.9	11.0
BV (Rs/sh)	192	216	233	253	277
VALUATION					
P/E	60.2	56.7	43.8	36.7	31.8
P/BV	5.7	5.1	4.7	4.3	4.0
EV/EBITDA	35.0	33.4	27.0	23.2	20.4
OCF/EV (%)	1.4	1.6	(0.6)	1.3	1.7
FCF/EV (%)	0.6	2.5	(1.1)	0.7	1.1
FCFE/Market Cap (%)	0.6	2.2	(1.1)	0.6	1.0
Dividend Yield (%)	4.1	0.7	0.8	0.9	1.0

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
17-May-19	1,130	NEU	1,165
29-May-19	1,262	NEU	1,165
11-Jul-19	1,236	NEU	1,165
8-Aug-19	1,101	NEU	1,197

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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