

Sale of Siemens Information Services to Siemens AG, Continued Poor Corporate Governance standards Siemens India (SIEM BO, Mkt Cap US\$1.8b, CMP Rs261, Neutral) has approved divestment of 100% stake in subsidiary Siemens Information Services Ltd (SISL) to Siemens AG. We continue to be disappointed by the disclosure standards at Siemens. Also, historically, subsidiaries that have been sold to Siemens AG have witnessed EBITDA margin erosion, prior to the sale. During FY07, SPCNL was sold at book value of Rs1639.5m and prior to the sale, had also experienced decline in PBT. SISL's book value as at Sept 08 stands at Rs851m. We expect Siemens to report revenues of Rs83.6b in FY09 (stagnant YoY) and Rs91.3b in FY10 (up 9.3% YoY). We maintain Neutral with price target of Rs208, 12x FY09 (Sept year end) earnings of Rs17.4.

Siemens India divests IT/ITES subsidiary SISL to Siemens AG:

- Siemens India has approved divestment of 100% stake in SISL to Siemens Corporate Finance Pvt. Ltd., a 100% subsidiary of Siemens AG. SISL was the only meaningful contributor to Siemens India's consolidated financials in FY08 after the stake sale in Siemens Public Communication Networks Ltd (SPCNL) in FY07. In FY08 (the last year preceding the sale), SISL reported revenues of Rs9.9b (down 2.9% YoY) and net profit of Rs339m (down 78% YoY). PBT margins for SISL have eroded from 22.7% in FY05 to 7.4% in FY08. The decline in profits has been due to the business restructuring at Siemens AG, wherein SISL now bills captive business on cost-plus basis. SISL derives ~85% of the revenues internally from the Siemens AG group.

Poor corporate governance standards:

- We continue to be disappointed by the disclosure standards at Siemens India. Also, historically, subsidiaries that have been sold to Siemens AG have witnessed EBITDA margin erosion, prior to the sale. During FY07, SPCNL was sold at book value of Rs1639m and prior to the sale, had also experienced decline in PBT margins. SISL has also witnessed decline in reported profitability, and book value as at Sept 08 stands at Rs851m.

Expect stagnant FY09 revenue growth, given high base effect:

- Given the receipt of mega projects in FY05 and FY06 from Qatar (Rs63b), export revenues increased from Rs9b in FY06 to Rs25b in FY07 and Rs26b in FY08. As % of revenues, share of exports increased from 20% in FY06 to 32% in FY08. As these projects get executed, we expect the share of exports to decline, which will impact revenues going forward. We expect Siemens to report revenues of Rs83.6b in FY09 (stagnant YoY) and Rs91.3b in FY10 (up 9.3% YoY).

Maintain Neutral:

- We expect Siemens India to report standalone net profit of Rs5.9b in FY09 (up 16% YoY) and Rs6.1b in FY10 (up 4% YoY). At CMP, the stock quotes at 15x FY09E and 14.4x FY10E standalone numbers. We maintain Neutral with a revised target of Rs204/sh, 12x FY09 (Sept year end) earnings of Rs17.4.

Disclaimer : This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited (hereinafter referred as MOST) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOST or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOST and/or its Group Companies, their Directors, affiliates and/or employees may have interests/ positions, financial or otherwise in the securities/commodities and other investment products mentioned in this report. Further, MOST and / or its Investment Banking Arm (Motilal Oswal Investment Advisors Private Limited) may have broking and / or investment banking relationship with the Companies covered in this report.

Disclosure of Interest Statement:

The MOST group and its Directors own shares in the following companies : Bharat Electronics, Bharti Airtel, Birla Corporation, GSK Pharma, Hero Honda, IOC, Marico, Oriental Bank, Siemens and State Bank.

MOST has broking relationships with a few of the companies covered in this report.

MOST is engaged in providing investment-banking services in the following companies covered in this report: Alok Industries and Great Offshore.

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific.