



Siemens India

STOCK INFO.	BLOOMBERG
BSE Sensex: 14,218	SIEM IN
	REUTERS CODE
S&P CNX: 4,109	SIEM.BO

18 January 2007

Neutral

Previous Recommendation: Neutral

Rs1,216

Equity Shares (m)	165.7
52-Week Range	1,408/700
1,6,12 Rel. Perf. (%)	1/1/15
M.Cap. (Rs b)	201.4
M.Cap. (US\$ b)	4.5

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
9/06A	60,586	3,974	23.6	29.7	51.6	18.9	42.6	62.8	3.2	30.5
9/07E	84,448	5,765	34.2	45.0	35.6	14.7	46.4	67.0	2.4	23.4
9/08E	119,685	8,158	48.4	41.5	25.1	11.2	50.6	72.8	1.8	17.4

1QFY07 robust performance: During 1QFY07, Siemens India reported revenues of Rs16.3b (up 90% YoY), EBITDA of Rs1.2b (up 56% YoY) and net profit of Rs984m (up 78.4% YoY). The numbers are above our expectation of: revenue: Rs12.5b, EBITDA: Rs1.1b and net profit of Rs734m. EBITDA margins for the quarter was lower by ~160bp YoY to 7.6% (v/s 9.2% in 1QFY06) primarily due to increased share of power business and margin decline in automation & drives division.

Strong revenue growth in power business: During 1QFY07, power division reported robust revenues of Rs9.9b (up 183% YoY), largely due to execution of the initial order from Qatar, received during December 2005. Power division now accounts for 61% of revenues, as compared to 44% during FY06 and 41% during 1QFY06. EBIT margins of the power business were down marginally at 7.2% during 1QFY07 (v/s 7.4% during 1QFY06).

Order book at Rs110b, 2.5x FY06 revenue: The order book position as of December 2006 stood at Rs110b (v/s Rs75b in September 2006), up 56% QoQ, equivalent to 2.5x FY06 revenue of Rs44.7b. The company has recently won order from Qatar General Electricity and Water Corp for Rs40b, in Qatar jointly with Siemens AG. The order is to be executed over a 22 month period.

Valuations and views: We upgrade earnings to factor in the higher than expected growth from Power and Industrial solutions division. We now expect FY07 consolidated revenues at Rs84.4b (v/s Rs83.7b earlier) and FY08 at Rs119.7b (v/s Rs118.3b earlier). We expect Siemens India to report consolidated net profit of Rs5.8b in FY07 (v/s Rs5.5b earlier) and Rs8.2b in FY08 (v/s Rs7.9b earlier). We arrive at a price target of Rs1,060/share, based on SOTP methodology. Maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

Y/E SEPTEMBER	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Total Revenues	8,601	11,334	10,465	14,997	16,331	18,241	16,748	21,590	45,397	72,910
Change (%)	62.1	57.6	70.8	59.2	89.9	60.9	60.0	44.0	61.9	60.6
EBITDA	791	1,214	792	1,244	1,234	1,950	1,094	2,012	4,041	6,291
Change (%)	76.1	34.8	44.1	34.3	56.1	60.7	38.0	61.7	43.0	57.1
As % of Revenues	9.2	10.7	7.6	8.3	7.6	10.7	6.5	9.3	8.9	8.6
Depreciation	150	81	90	122	103	120	140	175	442	537
Interest Income	54	79	117	116	126	65	95	79	367	0
Other Income	9	419	24	637	152	470	80	758	1,089	1,824
PBT	705	1,630	844	1,875	1,409	2,365	1,129	2,674	5,055	7,578
Tax	215	452	279	508	426	710	339	800	1,454	2,273
Effective Tax Rate (%)	30.5	27.7	33.1	27.1	30.2	30.0	30.0	29.9	28.8	30.0
Reported PAT	490	1,178	565	1,367	984	1,656	790	1,874	3,601	5,305
Adjusted PAT	551	1,178	565	1,367	984	1,656	790	1,874	3,662	5,305
Change (%)	75.7	48.4	42.9	30.9	78.4	40.5	39.8	37.1	43.8	44.8

E: MOST Estimates; Nos are for standalone entity

1QFY07: Robust performance

During 1QFY07, Siemens India reported revenues of Rs16.3b (up 90% YoY), EBITDA of Rs1.2b (up 56% YoY) and net profit of Rs984m (up 78.4% YoY). The numbers are above our expectation of: Revenue: Rs12.5b, EBITDA: Rs1.1b and net profit of Rs734m. EBITDA margins for the quarter was lower by ~160bp YoY to 7.6% (v/s 9.2% in 1QFY06) primarily due to increased share of power business and margin decline in Automation & Drives division.

Strong revenue growth in power business

During 1QFY07, power division reported robust revenues of Rs9.9b (up 183% YoY), largely due to execution of the initial order from Qatar, received during December 2005. Power division now accounts for 61% of revenues, as compared to 44% during FY06 and 41% during 1QFY06. EBIT margins of the power business were down marginally at 7.2% during 1QFY07 (v/s 7.4% during 1QFY06).

Siemens India EBIT margins declined to 7% during 1QFY07, as compared to 7.6% during 1QFY06 and 8% during FY06, largely due to increased contribution from power business (low margin business v/s other segments like industrial solutions, automation, real estate, information and communication, etc). The lower EBIT margin during 1QFY07 is also a result of the 184bp decline in the automation and drives EBIT margin.

Order book continues to be robust

The order book position as of December 2006 stood at Rs110b (v/s Rs75b in September 2006), up 56% QoQ, equivalent to 2.5x FY06 revenue of Rs44.7b. The company has recently won order from Qatar General Electricity and Water Corp for Rs40b for development of Phase VII of Electrical Grid in Qatar jointly with Siemens AG. The share of the company stands at Rs36b and the order is to be executed over a 22 month period. Given the increased focus on infrastructure spending, we expect order intake to remain buoyant.

Earnings upgrades, maintain Neutral

We upgrade our earnings to factor in the higher than expected growth from power and industrial solutions division. We now expect FY07 consolidated revenues at Rs84.4b (v/s Rs83.7b earlier) and FY08 at Rs119.7b (v/s Rs118.3b earlier). We expect Siemens India to report consolidated net profit of Rs5.8b in FY07 (v/s Rs5.5b earlier) and Rs8.2b in FY08 (v/s Rs7.9b earlier). Based on earnings revision, we upgrade our price target to Rs1,060 (from Rs1,022 earlier), and maintain Neutral rating on the stock.

We arrive at a price target of Rs1,060/share, based on SOTP methodology. We value the core business earnings at 25x FY08 (September year end) PER at Rs803/share, SISL at 15x FY08 PER at Rs248/share and Other subsidiaries at Rs8/share. At the CMP of Rs1,216/share, the stock trades at PER of 51.6x FY06, 35.6x FY07E and 25.1x FY08E. Maintain **Neutral**.

SUM OF THE PARTS

	METHOD	VALUATION (X)	VALUE (RS M)	VALUE (RS/SH)	RATIONALE
Standalone Business	FY08 P/E	25	133,069	803	Premium to Industry Average
SISL	FY08 P/E	15	41,131	248	In line with Tier-II IT companies
Other Subsidiaries	FY08 P/E	15	1,394	8	
Target Price			175,594	1,060	

* September Year end

Source: Motilal Oswal Securities

SEGMENTWISE PERFORMANCE ANALYSIS (RS M)

	1QFY05	2QFY05	3QFY05	4QFY05	1QFY06	2QFY06	3QFY06	4QFY06	1QFY07
Information and Communication	241	293	245	300	354	367	346	351	352
<i>Growth (%)</i>	-	-	-	-	47.0	26.0	41.0	17.0	-1.0
Automation & Drives	1,850	2,373	1,887	2,729	2,263	3,211	2,857	3,878	3,164
<i>Growth (%)</i>	-	-	-	-	22.0	35.0	51.0	42.0	40.0
Industrial Solutions & Services	694	821	510	844	956	1,215	1,177	1,972	1,638
<i>Growth (%)</i>	-	-	-	-	38.0	48.0	131.0	134.0	71.0
Power	1,431	2,223	2,127	3,892	3,495	4,743	4,602	6,941	9,888
<i>Growth (%)</i>	-	-	-	-	144.0	113.0	116.0	78.0	183.0
Transport	370	461	451	535	626	630	544	682	584
<i>Growth (%)</i>	-	-	-	-	69.0	37.0	20.0	28.0	-7.0
Healthcare & Other Services	519	1,118	809	1,237	761	997	896	1,483	766
<i>Growth (%)</i>	-	-	-	-	47.0	-11.0	11.0	20.0	1.0
Building Technologies	109	137	86	125	160	167	155	274	248
<i>Growth (%)</i>	-	-	-	-	46.0	22.0	81.0	118.0	55.0
Real Estate	97	111	109	125	90	102	96	133	113
<i>Growth (%)</i>	-	-	-	-	-7.0	-7.0	-12.0	6.0	25.0
Automotive					316	304	308	313	289
<i>Growth (%)</i>									-8.0
Less - Inter Segment	-280	-388	-248	-457	-510	-589		-1,107	-772
Total	5,031	7,149	5,974	9,330	8,511	11,150	10,982	14,920	16,269
<i>Growth (%)</i>	-	-	-	-	69.0	56.0	84.0	60.0	91.0

Segmentwise EBIT

Information & Communication	25	31	22	31	36	46	36	28	25
<i>EBIT Margin (%)</i>	10.0	11.0	9.0	10.0	10.2	12.5	10.3	8.1	7.1
Automation & Drives	110	192	54	238	142	348	171	391	141
<i>EBIT Margin (%)</i>	6.0	8.0	3.0	9.0	6.3	10.8	6.0	10.1	4.4
Industrial Solutions & Services	62	112	77	60	89	179	115	202	185
<i>EBIT Margin (%)</i>	9.0	14.0	15.0	7.0	9.3	14.7	9.7	10.3	11.3
Power	101	251	206	214	258	402	274	294	713
<i>EBIT Margin (%)</i>	7.0	11.0	10.0	6.0	7.4	8.5	6.0	4.2	7.2
Transport	33	34	39	119	73	71	30	32	56
<i>EBIT Margin (%)</i>	9.0	7.0	9.0	22.0	11.7	11.2	5.6	4.7	9.5
Healthcare & Other Services	-35	90	30	68	9	-6	12	85	-66
<i>EBIT Margin (%)</i>	-7.0	8.0	4.0	5.0	1.2	-0.6	1.3	5.7	-8.7
Building Technologies	6	8	6	9	9	13	6	13	12
<i>EBIT Margin (%)</i>	6.0	6.0	7.0	7.0	5.9	7.7	3.8	4.6	4.8
Real Estate	90	121	64	94	51	65	58	74	72
<i>EBIT Margin (%)</i>	93.0	109.0	59.0	76.0	56.4	63.1	60.4	56.2	64.1
Automotive					-24	20	10	11	-1
<i>EBIT Margin (%)</i>					-7.6	6.6	3.4	3.5	-0.4
Total	392	839	498	834	643	1,136	712	1,131	1,136
<i>% of Total</i>	8.0	12.0	8.0	9.0	7.6	10.2	6.8	7.6	7.0

Source: Company/Motilal Oswal Securities

Siemens: an investment profile

Company description

Siemens India is a 55% subsidiary of Siemens AG. The business mix of the company encompasses a play on infrastructure and industrial sectors. In infrastructure, the company provides signaling systems and traction equipment to the railways, healthcare systems and power transmission and distribution systems. In the industrial sector, the company is a strong force in the industrial automation and switchgear systems. SISL, a 100% subsidiary of Siemens India, is engaged in providing IT solutions to Siemens AG, and external clients.

Key investment arguments

- Siemens India is ideally positioned to take advantage of the accelerated investments in both infrastructure and industrial segments. The company has presence in most of the emerging areas in these segments.
- Current order book at Rs110b+ (~2.5x FY06 revenues) provides strong growth visibility. Further, we believe that the margins in exports segment are better than domestic margins.
- Strong net profit CAGR of 43% till FY08 on consolidated basis.

Key investment risks

- Slowdown of power sector reforms and downturn in the industrial capex cycle may hamper growth
- Margin pressures due to higher raw material costs, increased competitive pressures, etc
- Increased share of internal work for SISL may lead to continued margin pressures

Recent developments

- Received order of Rs36b for setting up power T&D network in Qatar.
- SPCNL, along with the Enterprise Network business of Siemens is being hived off in joint venture with Nokia and Siemens AG

Valuation and view

- At the CMP of Rs1,216/share, the stock trades at PER of 51.6x FY06, 35.6x FY07E and 25.1x FY08E.
- Maintain **Neutral**.

Sector view

- Power sector is expected to witness increased traction till FY07, both on generation and transmission
- Buoyant demand and stable raw-material prices have resulted in EBITDA margins expansion.
- We remain positive view on the sector.

COMPARATIVE VALUATIONS

		SIEMENS	ABB	BHEL
P/E (x)	FY07E	35.6	45.5	24.6
	FY08E	25.1	33.3	19.5
P/BV (x)	FY07E	14.7	12.8	6.1
	FY08E	11.2	9.6	4.9
EV/Sales (x)	FY07E	2.4	3.3	2.9
	FY08E	1.8	2.4	2.4
EV/EBITDA (x)	FY07E	23.4	30.4	14.6
	FY08E	17.4	21.1	11.4

For Siemens - FY07E is Sept. ending 2007 and FY08E is Sept ending 2008, For ABB - FY07E is Dec ending 2006 and FY08E is Dec ending 2007

SHAREHOLDING PATTERN (%)

	DEC.06	SEP.06	DEC.05
Promoters	55.2	55.2	54.6
Domestic Institutions	14.4	15.2	15.3
FII's/FDIs	11.5	12.3	11.9
Others	18.9	17.3	18.2

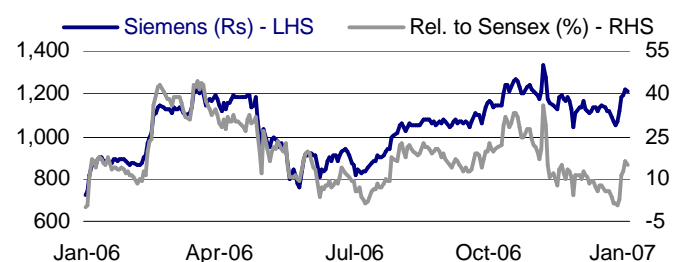
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	34.2	36.0	-4.9
FY08	48.4	48.4	0.1

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
1,216	1,060	-12.8	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT (CONSOLIDATED)					
(RS MILLION)					
Y/E SEPTEMBER	2004	2005	2006	2007E	2008E
Net Sales	22,456	36,379	60,323	84,199	119,423
Other Operating Income	283	299	264	249	262
Change (%)	30.6	62.0	65.8	39.6	41.8
Cost of Sales and Services	14,214	23,084	40,684	58,500	82,577
Staff Cost	3,151	4,834	7,500	8,161	10,965
Office and Site Estab. Exps	2,669	4,145	5,986	9,027	13,881
EBITDA	2,706	4,615	6,417	8,760	12,261
Change (%)	43.9	70.6	39.0	36.5	40.0
Margin (%)	12.0	12.7	10.6	10.4	10.3
Depreciation	-476	-684	-1,260	-1,600	-2,100
Other Income	194	473	586	990	1,403
Share in Profit in Assoc. Co.	16	22	40	0	0
Profit before Taxes	2,439	4,425	5,783	8,150	11,564
Change (%)	44.2	81.4	30.7	40.9	41.9
Margin (%)	10.9	12.2	9.6	9.7	9.7
Tax	936	1,428	1,955	2,386	3,407
Tax Rate (%)	38.4	32.3	33.8	29.3	29.5
Profit after Taxes	1,503	2,997	3,828	5,765	8,158
Change (%)	2.17	99.5	27.7	50.6	41.5
Margin (%)	6.7	8.2	6.3	6.8	6.8
Minority Interest	0	-9	-4	0	0
Extraordinary Income/(Exp).	191	103	92	0	0
Reported PAT	1,694	3,092	3,917	5,765	8,158

BALANCE SHEET					
(RS MILLION)					
Y/E SEPTEMBER	2004	2005	2006	2007E	2008E
Share Capital	331	331	337	337	337
Reserves	6,671	8,847	12,056	16,388	22,754
Net Worth	7,002	9,179	12,393	16,725	23,091
Minority Interest	0	72	40	40	40
Loans	29	961	40	79	88
Capital Employed	7,031	10,211	12,473	16,844	23,220
Gross Block	6,976	9,379	11,276	12,808	14,917
Less: Accum. Depn.	4,398	5,248	6,342	7,225	8,447
Net Fixed Assets	2,579	4,130	4,934	5,583	6,470
Capital WIP	81	613	1,743	594	738
Investments	408	847	2,138	2,138	2,138
Curr. Assets, L&A	14,462	24,041	36,777	62,220	86,591
Inventory	1,698	3,700	5,429	7,502	10,535
Account Receivables	4,259	10,700	15,098	20,863	29,295
Cash and Bank Balance	6,411	6,745	11,618	28,296	40,090
Loans and Advances	2,094	2,896	4,632	5,559	6,671
Curr. Liab. and Prov.	10,768	19,848	33,748	54,319	73,346
Current Liabilities	8,809	16,429	29,412	48,118	65,043
Provisions	1,959	3,419	4,335	6,202	8,303
Net Current Assets	3,695	4,193	3,029	7,901	13,244
Deferred Tax Asset/(Liab)	269	428	629	629	629
Application of Funds	7,031	10,211	12,474	16,844	23,220

E: Most Estimates

RATIOS					
Y/E SEPTEMBER	2004	2005	2006	2007E	2008E
Basic (Rs)					
EPS	9.1	18.1	22.7	34.2	48.4
Cash EPS	11.9	22.2	30.2	43.7	60.8
BV/Share	42.3	55.4	73.5	99.2	137.0
DPS	18	2.0	3.8	8.0	10.0
Payout %	19.8	11.1	16.7	23.4	20.7
Valuation (x)					
P/E		67.2	53.5	35.6	25.1
Cash P/E		54.7	40.3	27.8	20.0
EV/Sales		5.4	3.1	2.1	1.4
EV/EBITDA		42.4	29.6	19.8	13.2
P/BV		21.9	16.5	12.3	8.9
Return Ratios (%)					
RoE	215	32.7	30.9	34.5	35.3
RoCE	34.5	43.1	46.0	48.4	49.8
Working Capital Ratios					
Debtor (Days)	69	107	91	90	90
Asset Turnover (x)	3.2	3.6	4.8	5.0	5.1
Leverage Ratio					
Debt/Equity (x)	0.0	0.1	0.0	0.0	0.0

CASH FLOW STATEMENT					
(RS MILLION)					
Y/E SEPTEMBER	2004	2005	2006	2007E	2008E
OP/(loss) before Tax	2,439	4,425	5,783	8,150	11,564
Depreciation and Amort.	476	684	1,260	1,600	2,100
Interest Paid	0	0	0	0	0
Direct Taxes Paid	-936	-1,428	-1,955	-2,386	-3,407
(Incr)/Decr in WC	2,182	-164	6,036	11,807	6,451
CF from Operations	4,162	3,518	11,124	19,171	16,709
Extraordinary Items	0	-9	-4	0	0
(Incr)/Decr in FA	-219	-2,934	-3,028	-382	-2,254
(Pur)/Sale of Investments	-378	-439	-1,291	0	0
CF from Invest.	-596	-3,382	-4,322	-382	-2,254
Issue of Shares	0	0	0	0	0
(Incr)/Decr in Debt	-2	932	-921	39	9
Dividend Paid	-8	-9	-17	-36	-45
Others	-508	-725	-992	-2,114	-2,625
CF from Fin. Activity	-518	198	-1,930	-2,111	-2,661
Incr/Decr of Cash	3,047	334	4,873	16,678	11,794
Add: Opening Balance	3,364	6,411	6,745	11,618	28,296
Closing Balance	6,411	6,745	11,618	28,295	40,090



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Disclosure of Interest Statement	Siemens India
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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