

# SIEMENS LTD.

7 March 2011

HOLD

TARGET PRICE : Rs.915

CMP : Rs.856

## Quarterly Results Update.

Siemens started the current fiscal on a mixed note, while its revenue for the first quarter ended Dec 2010 grew by strong 33% (Rs 2538.11 crore), a 500 bps contraction in operating margin saw benefit of higher sales not translated into profits leaving its operating profit to decline by 1% to Rs 362.73 crore. The higher interest income and lower tax incidence the net profit has just inched ahead by 2% to Rs 243.79 crore.

Weak operating performance for the quarter came on high base inflated by certain one time gain amounting to Rs 76 crore in corresponding previous period arising on completion of some major projects. Excluding that one time gain the growth at PBT was higher by 28% to Rs 365.14 crore and the net profit by 29% to Rs 243.79 crore.

## SEGMENT PERFORMANCE

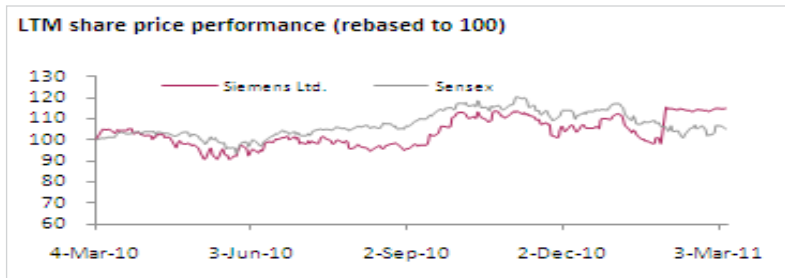
Energy business segment has gained by all-round growth in all broad product categories of fossil power, oil & gas, power transmission and power distribution with most of the upside come from power transmission and oil & gas. Segment revenue of oil & gas was higher by 108% (Rs 324.07 crore) while that of power transmission was higher by 47% (Rs 695.18 crore). The segment revenue of power distribution was higher by 44% (Rs 274.02 crore) on the other hand the segment revenue of fossil power albeit on lower base was up by 102% (Rs 57.06 crore).

Revenue of industry business was driven largely by industrial automation, building technologies and industry solutions as the segment revenue of drive technologies and mobility register a de-growth of 12% (Rs 309.05 crore) and 15% (Rs 267.16 crore) respectively. The segment revenue of industrial automation and industrial solutions was higher by 30% (Rs 189.66 crore) and 23% (Rs 291.70 crore) respectively. The revenue of building technologies was higher by 62% (Rs 159.59 crore).

Segment margin of all business barring industries have contracted significantly. Even for industries the overall margin of this broad category expanded only because of strong 1780 bps expansion in segment margin of mobility to 26.3% which more than offset the margin erosion in all other sub segments of industry. Thus the segment profit of energy was limited to Rs 201.56 crore even while that of industry was up by 14% to Rs 132.13 crore. The segment profit of healthcare was down by 72% to Rs 1.70 crore and that of real estate was lower by 98% to Rs 79 lakh.

## Outlook

Siemen's performance in the first quarter has improved and sales have increased significantly and were driven by a surge in the product business on account of increase in domestic demand and a reviving project business across all our businesses. Company saw order intake of Rs 3987 crore in the quarter taking outstanding order book to Rs 15132 crore, which is 1.6x to its FY10 sales. However, considering steep valuation of 24.5x FY12 and extremely competitive market environment with pricing pressures and inflationary trends in raw material prices we recommend hold on stock with price target of Rs. 915.



Source: AxisDirect Research and Analysis, Company Filings, Bloomberg, Recommendation based on CMP

## FINANCIAL SUMMARY (RS CRORES)

YE	2008A	2009A	2010A	2011E	2012E
Revenue	9,680	9,286	9,620	11,433	13,800
% growth		(4.1%)	3.6%	18.8%	20.7%
EBITDA	1,117	1,280	1,242	1,505	1,794
% growth		14.6%	(3.0%)	21.2%	19.2%
% margin	11.5%	13.8%	12.9%	13.2%	13.0%
EBIT	1,104	1,262	1,124	1,381	1,652
% growth		14.3%	(10.9%)	22.9%	19.6%
% margin	11.4%	13.6%	11.7%	12.1%	12.0%
PAT	594	692	800	1,010	1,176
% growth		16.6%	15.6%	26.2%	16.4%
% margin	6.1%	7.5%	8.3%	8.8%	8.5%
FCF <sup>1</sup>	1,117	1,280	1,110	1,136	1,398
% growth		14.6%	(13.3%)	2.3%	23.1%

## QUARTERLY PERFORMANCE (RS CRORES)

	Dec 10	Sep 10	QoQ	Dec 09	YoY
Revenue	2,538	3,025	(16.1%)	1,902	33.4%
EBITDA	363	397	(8.7%)	368	(1.4%)
% margin	14.3%	13.1%		19.3%	
EBIT	392	419	(6.4%)	384	2.1%
% margin	15.4%	13.8%		20.2%	
PAT	244	251	(3.1%)	239	2.2%
% margin	9.6%	8.3%		12.5%	

## VALUATION ANALYSIS

YE	2010A	2011E	2012E
P/E	36.1x	28.6x	24.5x
EV/EBITDA	21.7x	17.9x	15.0x
Net debt/EBITDA	N/M	N/M	N/M
RoCE <sup>2</sup>	34.3%		
RoE	24.4%		
EPS (Rs)	23.7	30.0	34.9
Dividend yield	0.6%	0.7%	0.7%

## SHAREHOLDING AS ON DECEMBER 2010

CATEGORY	HOLDING %	QoQ
Promoters	55.18	0.0%
Foreign	4.62	0.5%
Domestic institutions	22.97	(0.2%)
Public/Others	17.23	(0.3%)

## MARKET DATA (RS UNLESS INDICATED OTHERWISE)

52 week high / low	884.95 / 620.60
Face value per share	5.00
Outstanding shares (Crores)	33.7
Market cap (Rs Crores)	28,874.4
ADTV <sup>3</sup> for 3 months (lakhs)	5.5

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