

RESULTS REVIEW

Siemens India Limited

Hold

Share Data

Market Cap	Rs. 278.2 bn
Price	Rs. 1,650.0
BSE Sensex	17,998.39
Reuters	SIEM.BO
Bloomberg	SIEM IN
Avg. Volume (52 Week)	0.1 mn
52-Week High/Low	Rs. 1,905.2/968
Shares Outstanding	168.6 mn

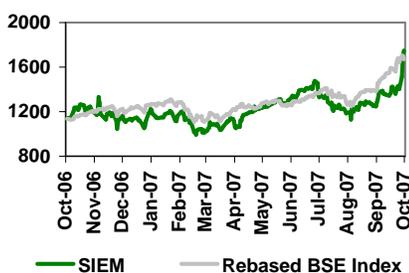
Valuation Ratios (Consolidated)

Year to 30 Sept	2007E	2008E
EPS (Rs.)	33.4	48.0
+/- (%)	61.5%	43.5%
PER (x)	49.4x	34.4x
EV/ Sales (x)	3.0x	2.2x
EV/ EBITDA (x)	30.5x	21.5x

Shareholding Pattern (%)

Promoters	55
FII's	8
Institutions	19
Public & Others	17

Relative Performance



Operating results weak despite growth in revenues

Siemens India Limited (SIEM) reported disappointing operating performance in Q307. Despite an increase of 69.4% yoy in sales to Rs. 17,822.7 mn, EBITDA declined by 2.2% yoy to Rs. 830.7 mn, in this quarter. Fall in EBITDA was primarily on account of considerable provision made for anticipated losses in the power segment. However, bottom line was supported by tremendous rise in other income as net profit went up by 44.7% yoy to Rs. 817.9 mn.

Driven by inorganic growth and organic growth through indigenization, Siemens is rapidly moving ahead in order to enhance the portfolio. However, despite aggressive strategies, the Company is unable to perform to its best in any of the segments.

We expect revenues to grow at a CAGR of 43.9% and EPS to grow to Rs. 48 by FY08E. Despite substantial decline in margins in Q307, we are still positive about the long term prospects of the Company. Currently, Siemens is trading at EV/EBITDA of 30.5x for FY07E and 21.5x for FY08E. At a P/E of 49.4x for FY07E, we feel that the stock fully incorporates all the positives and this is not the right time to enter in the stock. Hence, we maintain **Hold**.

Result Highlights

In Q307, SIEM's topline appreciated by 69.4% yoy to Rs. 17,822.7 mn aided by strong order execution in the Power segment (up by 113.4% yoy), Industrial solutions and services segment (up by 101.2% yoy), and

Key Figures (Standalone)

Quarterly data	Q3'06	Q2'07	Q3'07	YoY%	QoQ%
(Figures in Rs. mn, except per share data)					
Net Sales	10,523	21,292	17,823	69.4%	(16.3%)
EBITDA	850	1,617	831	(2.2%)	(48.6%)
Net Profit	565	1,081	818	44.7%	(24.3%)
Margins(%)					
EBITDA	8.1%	7.6%	4.7%		
NPM	5.4%	5.1%	4.6%		
Per Share Data (Rs.)					
Adjusted EPS	3.4	6.4	4.9	44.8%	(24.3%)

Strong revenue growth across all segments except Automotive business

Automation and drives business (up by 29.7% yoy). All other segments also increased in Q307 vis-à-vis Q306, except Automotive business which declined marginally by 3.8% yoy.

Segmental revenue break-up (in Rs. mn)

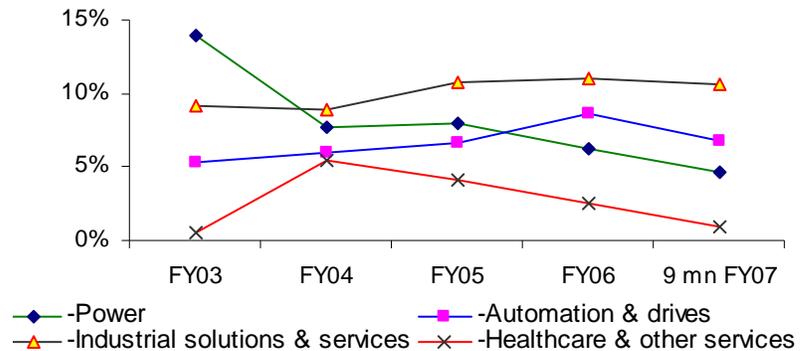
Segments	Q306	Q307	Inc/Dec
-Power (% of total sales)	4,602 44%	9,823 55%	113%
-Automation & drives (% of total sales)	2,857 27%	3,706 21%	30%
-Information and communication (% of total sales)	346 3%	465 3%	34%
-Industrial solutions & services (% of total sales)	1,177 11%	2,369 13%	101%
-Healthcare & other services (% of total sales)	896 9%	1,199 7%	34%
-Transport (% of total sales)	544 5%	790 4%	45%
-Automotive (% of total sales)	308 3%	296 2%	(4%)
-Building technologies (% of total sales)	155 1%	230 1%	48%
-Real Estate (% of total sales)	96 1%	96 1%	0%
-Intersegment revenue (% of total sales)	(460) 4%	(1,152) 6%	151%
Total turnover	10,523	17,823	69%

Besides registering robust growth in sales, Power segment has also enlarged its contribution in the total sales to 55% in Q307 from 44% in Q306, (an increase of 11.4% yoy). However, the contribution of Automation & drives (21% vis-à-vis 27%) and Healthcare & other services (7% vis-à-vis 9%) segments marginally decreased in this quarter.

In spite of being major contributor in sales, Power segment's contribution in EBITDA got reduced to 7% from 39%

EBITDA declined by 2.2% yoy to Rs. 830.7 mn and margins dipped 341 bps to 4.7%. EBITDA margins declined due to 541 bps fall in Power segment margins because of considerable provision made for anticipated losses in some of the old projects and 548 bps dip in Automotive segment margins. Further, raw material cost (as % of revenues) increased 5.3% yoy, which also contributed to the reduction in margins.

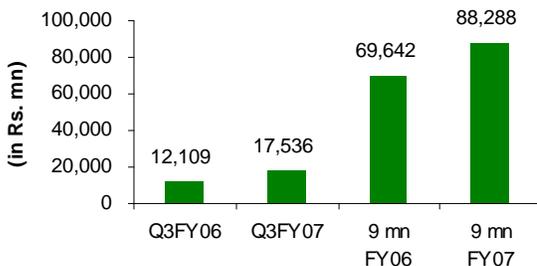
EBITDA margin performance



Net profit margin dipped by 78 bps

Net profit increased by 44.7% yoy to Rs. 817.9 mn on account of considerable increase in other income (1,031.9% yoy). However, net profit margin declined by just 78 bps when compared to the decline in EBITDA margin, as gains in interest income (up by 4.36% yoy) and other income, offset the decline to a major extent.

New orders received



The Company's order book stood at Rs. 108,164 mn (up by 40% yoy) as on 30th June 07. Siemens received new orders amounting to Rs. 17,536 mn (an increase of 44.8% yoy). Whereas, for the nine month period ended June 30, 2007, new orders jumped by 27% yoy to Rs. 88,288 mn from Rs. 69,642 mn. The major contributors were the Power, Industrial solutions & services and Automation & drives businesses. Presently, the value of order book position stands at nearly 1.79 times FY06 total revenues which provide strong revenue visibility for the future.

Despite robust macro environment, the Company registered order backlog growth of 40% yoy which is lower in comparison to its peers ABB and BHEL who witnessed order backlog growth of 48% yoy and 58% yoy, respectively. There lies concern on subdued consolidated business performance, with return lucrative businesses like SPCNL being transferred to the global parent.

Key Events

SITS is now a 100% subsidiary of Siemens

➤ *Siemens acquired the balance 26% stake in SITS*

On Sep 07, 2007, Siemens Ltd. acquired the balance 26% stake in Siemens Industrial Turbomachinery Services Pvt. Ltd. (SITS) from Pimac Engineers Pvt. Ltd. With the signing of closing agreement, SITS is now a 100% subsidiary of Siemens Ltd.

In the next 5 years, Siemens expects to acquire balance 23% share in iMetrex Technologies

➤ *Acquisition of 77% stake in iMetrex Technologies Ltd. likely to provide added cost advantage domestically and opens up avenues for export*

Recently, Siemens has acquired 77% stake in iMetrex Technologies Ltd. which along with the existing building technologies business would form a new entity viz. Siemens Building Technologies Ltd.

Outlook

SIEM is expected to report stable growth in the coming years owing to its technological edge and capabilities. Progressive policies are likely to provide tremendous opportunities in areas like infrastructure, healthcare and information & communication. Siemens is well equipped to leverage these opportunities with its wide-ranging portfolio, breakthrough innovations and environment-friendly solutions.

Siemens chief has chalked out three phase plan to grow in India

Siemens chief has outlined a triple strategy for growth in India, (a) Tapping the domestic market by penetrating into newer sectors and geographies, (b) Exploring additional avenue of growth in the export market, and (c) Leveraging on India's competitive advantages by sourcing products and services for the regional and global markets.

Driven by inorganic growth and organic growth through indigenization, we expect revenues to grow at CAGR of 43.9% and EPS to grow to Rs. 48 by FY08E. We believe the decline in margins in this quarter is not a matter of concern as the provision for losses seems to be a non-recurring element. Currently, Siemens is trading at EV/EBITDA of 30.5x for FY07E and 21.5x for FY08E. At a P/E of 49.4x for FY07E, we feel that the stock fully incorporates all the positives and this is not the right time to enter in the stock. Hence, we maintain **Hold**.

Key risks to the rating are increase in cost of fuel prices, higher competitive pressure, and seasonality attached to rainfall.

Key Figures (Consolidated)

Year to Sep.	FY04	FY05	FY06	FY07E	FY08E	CAGR (%)
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(Figures in Rs mn, except per share data) (FY06-08E)

Net Sales	22,159	35,938	59,816	90,245	123,844	43.9%
EBITDA	2,817	3,914	5,652	8,754	12,384	48.0%
Net Profit	1,644	2,638	3,490	5,636	8,088	52.2%

Margins(%)

EBITDA	12.7%	10.8%	9.4%	9.7%	10.0%
NPM	7.4%	7.3%	5.8%	6.2%	6.5%

Per Share Data (Rs.)

Normalized EPS	9.9	15.9	20.7	33.4	48.0	52.2%
PER (x)	113.0x	164.8x	79.7x	49.4x	34.4x	

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