

## RESULT UPDATE

### LARGE CAP

#### Share Data

Reuters code	SIEM.BO
Bloomberg code	SIEM IN
Market cap. (US\$ mn)	5,361
6M avg. daily turnover (US\$ mn)	7.6
Issued shares (mn)	337
Target price (Rs)	805

#### Performance (%) 1M 3M 12M

Absolute	(6)	10	130
Relative	(4)	3	50

#### Valuation ratios

Yr to 30 Sep	FY10E	FY11E
EPS (Rs)	24.0	29.6
+/- (%)	68.0	23.2
PER (x)	29.5	23.9
Dividend/Yield (%)	0.4	0.4
EV/Sales (x)	2.3	1.8
EV/EBITDA (x)	17.7	14.2

#### Major shareholders (%)

Promoters	55
FII's	4
MFs	5
Institutions	18
Public & Others	19

#### Financial highlights (Standalone)

(Rs mn)	2QFY09	2QFY10	YoY(%)	1HFY09	1HFY10	YoY(%)
Net Sales	23,830	22,261	(6.6)	40,228	40,927	1.7
EBITDA	3,489	2,861	(18.0)	5,191	6,494	25.1
EBITDA Margin (%)	14.6	12.9	-	12.9	15.9	-
Other Income	30	-	-	30	-	(100.0)
Interest	(94)	(117)	24.1	(259)	(274)	5.9
Depreciation	184	237	28.9	365	449	22.9
EoI	-	-	-	2,233	-	(100.0)
PBT	3,429	2,741	(20.1)	7,348	6,320	(14.0)
Tax	1,174	930	(20.8)	1,787	2,144	20.0
PAT Reported	2,255	1,811	(19.7)	5,561	4,176	(24.9)
PAT Adjusted	2,255	1,811	(19.7)	3,328	4,176	25.5

## Siemens

Price: Rs 708

BSE Index: 17,503

Maintain BUY

29 April 2010

### 2QFY10 Result – Business momentum improving!!!

#### Highlights

- During 2QFY10, Siemens India reported sales decline of ~7% to Rs 22.3 bn . Industry segment (52% of sales) and Healthcare segment (7% of sales) grew 25% and 37%, respectively. Energy segment (41% of sales) de-grew by 29% due to high base as the company completed one large project (Qatar) in 2QFY09. EBITDA margins contracted by 1.8% to 12.9% in 2QFY10 due to completion of a high margin order in 2QFY09 and forex loss of Rs 700 mn. All these factors resulted in earnings decline of ~20% to Rs 1.81 bn.
- The company reported an order backlog of Rs 134 bn, up 39% YoY. The company received orders to the tune of Rs 74.1 bn in 1HFY10, up 93% YoY. Of the order inflow (OI), energy (70% of OI), Industry (25% of OI) and Healthcare (5% of OI) reported a growth of 198%, (2.3)% and 82%, respectively.
- During 2QFY10, the Board of directors approved the sale of its three subsidiaries – iMetrex Technologies Ireland, Europlex Technologies Ireland and Europlex Technologies UK to Siemens AG for a consideration of Euro 2.95 mn (Rs 178.5 mn). The management stated that sales of these companies are negligible and are loss making.

#### B&K's view

**Siemens India has announced an investment of Rs 16 bn over the next two years in renewable (wind and solar) and value price products. This indicates Siemens AG key focus in the India business. 1HFY10 witnessed more product sales. The management stated that the projects business have started picking up. So we expect the margins to be lower in 2HFY10 vis-à-vis 1HFY10. Factoring this, we have downward revised our estimates by 13% to Rs 24 in FY10E and 6% to Rs 29.6 in FY11E. At 23.9x FY11 (ending September 2011), valuations do not look stretched given likely build-up of order book and upside in FY11E earnings. We maintain Buy rating with a revised target price of Rs 805 based on 30x one year forward earnings.**

## Segmental highlights

(Rs mn)	2QFY09	2QFY10	YoY(%)	1HFY09	1HFY10	YoY(%)
<b>Segment revenue</b>						
<b>Industry</b>						
- Industry Automation	1,224	1,701	38.9	2,447	3,160	29.1
- Drive Technologies	2,947	3,573	21.2	5,396	7,097	31.5
- Building Technologies	1,205	1,577	30.8	2,276	2,563	12.6
- Industry Solutions	2,507	3,093	23.4	4,743	5,459	15.1
- Mobility	2,346	2,812	19.8	4,583	5,937	29.5
<b>Total Industry</b>	<b>10,230</b>	<b>12,756</b>	<b>24.7</b>	<b>19,444</b>	<b>24,217</b>	<b>24.5</b>
<b>Energy</b>						
- Fossil Power generation	840	284	(66.2)	1,725	567	(67.1)
- Oil & Gas	1,409	1,656	17.5	2,339	3,213	37.3
- Power Transmission	9,759	5,902	(39.5)	13,639	10,630	(22.1)
- Power Distribution	2,297	2,316	0.8	4,265	4,225	(0.9)
<b>Total Energy</b>	<b>14,305</b>	<b>10,158</b>	<b>(29.0)</b>	<b>21,969</b>	<b>18,635</b>	<b>(15.2)</b>
<b>Healthcare</b>	<b>1,223</b>	<b>1,678</b>	<b>37.3</b>	<b>2,393</b>	<b>2,997</b>	<b>25.3</b>
<b>Real Estate</b>	<b>183</b>	<b>131</b>	<b>(28.7)</b>	<b>335</b>	<b>289</b>	<b>(13.6)</b>
Less: Inter-segment	2,259	2,599	-	4,170	5,344	28.1
<b>Net Sales</b>	<b>23,682</b>	<b>22,124</b>	<b>(6.6)</b>	<b>39,971</b>	<b>40,795</b>	<b>2.1</b>
<b>PBIT margin (%)</b>						
<b>Industry</b>						
- Industry Automation	11.9	4.1	-	8.4	7.6	-
- Drive Technologies	7.4	3.0	-	6.4	8.7	-
- Building Technologies	0.5	3.1	-	4.7	3.2	-
- Industry Solutions	9.8	8.2	-	10.5	7.8	-
- Mobility	(3.2)	11.1	-	(3.1)	9.7	-
<b>Total Industry</b>	<b>5.3</b>	<b>6.2</b>	<b>-</b>	<b>5.2</b>	<b>8.0</b>	<b>-</b>
<b>Energy</b>						
- Fossil Power generation	6.8	58.2	-	6.8	51.7	-
- Oil & Gas	16.9	8.4	-	15.0	13.0	-
- Power Transmission	21.4	19.8	-	19.5	23.4	-
- Power Distribution	9.9	8.2	-	9.6	8.3	-
<b>Total Energy</b>	<b>18.2</b>	<b>16.4</b>	<b>-</b>	<b>16.1</b>	<b>19.0</b>	<b>-</b>
<b>Healthcare</b>	<b>8.9</b>	<b>4.4</b>	<b>-</b>	<b>4.0</b>	<b>4.5</b>	<b>-</b>
<b>Real Estate</b>	<b>78.1</b>	<b>74.7</b>	<b>-</b>	<b>82.3</b>	<b>154.0</b>	<b>-</b>
<b>Total</b>	<b>14.4%</b>	<b>11.9</b>	<b>-</b>	<b>12.3</b>	<b>14.9</b>	<b>-</b>

**Income Statement**

Yr end 30 Sep (Rs mn)	FY08	FY09	FY10E	FY11E
<b>Net sales</b>	<b>96,798</b>	<b>92,865</b>	<b>92,624</b>	<b>120,401</b>
<i>Growth (%)</i>	3.2	(4.1)	(0.3)	30.0
Operating expenses	(88,173)	(82,976)	(81,301)	(106,162)
Operating profit	8,625	9,888	11,322	14,239
Other operating income	498	627	900	950
<b>EBITDA</b>	<b>9,123</b>	<b>10,515</b>	<b>12,222</b>	<b>15,189</b>
<i>Growth (%)</i>	(6.7)	15.3	34.0	24.3
Depreciation	(1,617)	(1,733)	(974)	(1,085)
Other income	756	681	1,090	1,155
<b>EBIT</b>	<b>8,262</b>	<b>9,463</b>	<b>12,338</b>	<b>15,259</b>
Interest paid				
Pre-tax profit	8,262	9,463	12,338	15,259
(before non-recurring items)				
Non-recurring items	1,235	1,501	-	-
Pre-tax profit	9,497	10,964	12,338	15,259
(after non-recurring items)				
Tax (current + deferred)	(3,483)	(3,960)	(4,239)	(5,278)
<b>Net profit</b>	<b>6,014</b>	<b>7,004</b>	<b>8,098</b>	<b>9,981</b>
<b>Adjusted net profit</b>	<b>4,760</b>	<b>5,544</b>	<b>8,098</b>	<b>9,981</b>
<i>Growth (%)</i>	(22.3)	16.5	68.0	23.2
Minority interests	(19)	41	-	-
<b>Net income</b>	<b>5,995</b>	<b>7,045</b>	<b>8,098</b>	<b>9,981</b>

**Balance Sheet**

Yr end 30 Sep (Rs mn)	FY08	FY09	FY10E	FY11E
Current assets	65,315	66,636	82,847	101,159
Investments	2,450	2,450	2,450	2,450
Net fixed assets	9,016	9,367	9,557	9,827
Other non-current assets	1,772	1,211	1,211	1,211
<b>Total assets</b>	<b>78,554</b>	<b>79,664</b>	<b>96,066</b>	<b>114,648</b>
Current liabilities	55,209	50,269	55,477	66,503
Total Debt	112	132	132	132
Other non-current liabilities	310	296	296	296
<b>Total liabilities</b>	<b>55,632</b>	<b>50,697</b>	<b>55,905</b>	<b>66,930</b>
Share capital	674	674	674	674
Reserves & surplus	22,100	28,143	36,397	45,901
<b>Shareholders' funds</b>	<b>22,774</b>	<b>28,817</b>	<b>37,071</b>	<b>46,575</b>
Minorities interests	147	150	151	152
<b>Total equity &amp; liabilities</b>	<b>78,554</b>	<b>79,664</b>	<b>96,066</b>	<b>114,648</b>
<b>Capital Employed</b>	<b>23,344</b>	<b>29,395</b>	<b>37,650</b>	<b>47,155</b>

**Cash Flow Statement**

Yr end 30 Sep (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	9,497	10,964	12,338	15,259
Depreciation	1,046	1,733	974	1,085
Chg in working capital	1,243	(1,666)	(1,196)	(6,255)
Total tax paid	(4,169)	(3,413)	(4,239)	(5,278)
<b>Cash flow from oper. (a)</b>	<b>7,616</b>	<b>7,618</b>	<b>7,877</b>	<b>4,810</b>
Capital expenditure	(1,413)	(2,084)	(1,164)	(1,355)
Chg in investments	(507)	-	-	-
Other investing activities	-	(41)	(99)	-
<b>Cash flow from inv. (b)</b>	<b>(1,862)</b>	<b>(2,125)</b>	<b>(1,263)</b>	<b>(1,355)</b>
<b>Free cash flow (a+b)</b>	<b>5,755</b>	<b>5,493</b>	<b>6,613</b>	<b>3,455</b>
Chg in minorities	49	44	1	1
Debt raised/(repaid)	(205)	19	-	-
Dividend (incl. tax)	(947)	(1,463)	(961)	(961)
<b>Cash flow from fin. (c)</b>	<b>(1,103)</b>	<b>(1,400)</b>	<b>(960)</b>	<b>(960)</b>
<b>Net chg in cash (a+b+c)</b>	<b>4,652</b>	<b>4,093</b>	<b>5,653</b>	<b>2,495</b>

**Key Ratios**

Yr end 30 Sep (%)	FY08	FY09	FY10E	FY11E
EPS (Rs)	14.1	16.5	24.0	29.6
EPS growth	(22.3)	16.5	68.0	23.2
EBITDA margin	9.4	11.2	13.1	12.5
EBIT margin	8.5	10.2	13.3	12.7
RoCE	39.1	35.9	42.4	38.2
Net debt/Equity	(57.2)	(59.3)	(63.0)	(57.3)

**Valuations**

Yr end 30 Sep (x)	FY08	FY09	FY10E	FY11E
PER	50.1	43.0	29.5	23.9
PCE	37.4	32.8	26.3	21.6
Price/Book	10.4	8.2	6.6	5.3
Yield (%)	0.4	0.4	0.4	0.4
EV/Net sales	2.2	2.3	2.3	1.8
EV/EBITDA	23.7	20.5	17.7	14.2

**Du Pont Analysis - ROE**

Yr end 30 Sep (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	4.9	6.0	8.7	8.3
Asset turnover	1.4	1.2	1.1	1.2
Leverage factor	3.3	3.0	2.7	2.5
Return on equity (%)	23.1	21.4	28.1	25.2

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**Analyst Declaration:** I, Shreegopal Jaju, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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**B&K Investment Ratings:**

1. **BUY:** Potential upside of > +25% (absolute returns)
  2. **OUTPERFORMER:** 0 to +25%
  3. **UNDERPERFORMER:** 0 to -25%
  4. **SELL:** Potential downside of < -25% (absolute returns)
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