Initial Opinion UNDERPERFORM

Equity | India | Industrials/Multi-Industry
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It is going to get tougher from hereon; new U/P

Bank of America Merrill Lynch

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Initiate at Underperform with a PO of Rs606

We initiate Siemens India (SIEM) at U/P and Rs606 PO. Our key arguments: a) decline in orders from traditional sectors, as lack of large orders reduce revenue visibility; b) coupled with lower margins in FY12-14 due to launch of new products, higher overheads and impact of lower raw material costs negated by FX variation; c) resulting in modest 8% earnings CAGR in FY12-14, and declining RoEs.

Order inflows to remain flat for the second year in a row

We expect FY12 order inflows for SIEM to remain flat YoY, even as cyclical headwinds recede in 2H CY12, as structural issues in key sectors of power generation, power T&D, metals, and cement will be overriding factors before a new investment cycle kicks in. Further, delayed orders in railways and the lost opportunity of Rs20-23bn of MRVC orders also limit chances of growth in fresh orders. Lower inflows reduce book-to-bill from 1.2x to 0.8x for FY11-14.

Product focus a positive, but may entail lower margins

We are positive on SIEM's strategy of addressing the mid-entry level product segment. It launched 10 new products in FY11 and has more than 60 such products in the pipeline. However, we believe that until product segments stabilize they would have lower margins. It was evident in FY11 when segment margins for drives dropped 630bp and those for automation segments declined 230bp.

Lower earnings growth, margins and RoEs; key risks

We believe current valuation of 30x PE FY13E does not reflect negatives of 8% earnings CAGR in FY12-14 vs 22% in FY08-11, falling margins (10.3% to 9.9%) and RoEs (23% to 18%). Our PO is based on 25x March 2013E earnings, a 20% discount to its 3-year average. Key risks to our view: Faster reversal in capex than our estimates and margins of SMART products could be higher than we estimate.

Stock Data

Price	Rs752.60
Price Objective	Rs606.00
Date Established	27-Jan-2012
Investment Opinion	C-3-8
Volatility Risk	HIGH
52-Week Range	Rs626.70-Rs951.00
Mrkt Val / Shares Out (mn)	US$5,110 / 340.3
Market Value (mn)	Rs256,106
Average Daily Volume	189,087
BofAML Ticker / Exchange	SMNBF / NSI
Bloomberg / Reuters	SIEM IN / SIEM.BO
ROE (2012E)	19.9%
Net Dbt to Eqty (Sep-2011A)	-33.4%
Est. 5-Yr EPS / DPS Growth	3.9% / 2.7%
Free Float	25.0%

Estimates (Sep)

(Rs)	2010A	2011A	2012E	2013E	2014E
Net Income (Adjusted - mn)	8,272	8,454	8,144	8,526	9,480
EPS	24.31	24.84	23.93	25.06	27.86
EPS Change (YoY)	-20.8%	2.2%	-3.7%	4.7%	11.2%
Dividend / Share	5.00	6.00	6.25	6.50	6.50
Free Cash Flow / Share	22.05	(11.39)	15.77	29.75	26.36

Valuation (Sep)

	2010A	2011A	2012E	2013E	2014E
P/E	30.96x	30.29x	31.45x	30.04x	27.01x
Dividend Yield	0.664%	0.797%	0.830%	0.864%	0.864%
EV / EBITDA*	19.90x	20.29x	18.98x	17.87x	16.01x
Free Cash Flow Yield*	2.90%	-1.51%	2.10%	3.95%	3.50%

* For full definitions of *iQmethod* SM measures, see page 29.

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iQprofile SM Siemens India

Key Income Statement Data (Sep)	2010A	2011A	2012E	2013E	2014E
(Rs Millions)					
Sales	93,152	119,419	122,980	135,243	151,740
Gross Profit	15,699	16,067	16,356	18,461	20,333
Sell General & Admin Expense	(2,939)	(4,541)	(3,689)	(5,004)	(5,311)
Operating Profit	11,069	10,329	10,869	11,365	12,723
Net Interest & Other Income	1,519	2,421	1,470	1,553	1,641
Associates	NA	NA	NA	NA	NA
Pretax Income	12,587	12,750	12,339	12,918	14,364
Tax (expense) / Benefit	(4,315)	(4,295)	(4,195)	(4,392)	(4,884)
Net Income (Adjusted)	8,272	8,454	8,144	8,526	9,480
Average Fully Diluted Shares Outstanding	340	340	340	340	340
Key Cash Flow Statement Data					
Net Income	8,272	8,454	8,144	8,526	9,480
Depreciation & Amortization	1,015	1,522	1,798	2,091	2,299
Change in Working Capital	1,570	(7,707)	(2,076)	2,507	192
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(845)	(2,163)	0	0	0
Cash Flow from Operations	10,012	107	7,866	13,124	11,971
Capital Expenditure	(2,577)	(3,983)	(2,500)	(3,000)	(3,000)
(Acquisition) / Disposal of Investments	(703)	186	0	0	0
Other Cash Inflow / (Outflow)	(1,134)	5,768	0	0	0
Cash Flow from Investing	(4,413)	1,971	(2,500)	(3,000)	(3,000)
Shares Issue / (Repurchase)	NA	NA	NA	NA	NA
Cost of Dividends Paid	(1,967)	(1,961)	(2,488)	(2,588)	(2,588)
Cash Flow from Financing	(2,007)	(1,963)	(2,488)	(2,588)	(2,588)
Free Cash Flow	7,435	(3,876)	5,366	10,124	8,971
Net Debt	(18,532)	(12,750)	(15,628)	(23,164)	(29,547)
Change in Net Debt	(3,930)	(607)	(2,878)	(7,536)	(6,383)
Key Balance Sheet Data					
Property, Plant & Equipment	7,340	11,694	14,885	15,794	16,495
Other Non-Current Assets	7,663	4,378	1,889	1,889	1,889
Trade Receivables	33,023	41,733	43,024	45,429	48,867
Cash & Equivalents	18,534	12,750	15,628	23,164	29,547
Other Current Assets	27,784	31,021	33,891	36,478	40,136
Total Assets	94,345	101,577	109,317	122,754	136,933
Long-Term Debt	2	0	0	0	0
Other Non-Current Liabilities	0	0	0	0	0
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	59,565	63,415	65,499	72,998	80,286
Total Liabilities	59,567	63,415	65,499	72,998	80,286
Total Equity	34,778	38,162	43,817	49,755	56,648
Total Equity & Liabilities	94,345	101,577	109,317	122,754	136,933
iQmethod* SM - Bus Performance					
Return On Capital Employed	24.3%	20.4%	18.5%	17.0%	16.8%
Return On Equity	25.9%	23.2%	19.9%	18.2%	17.8%
Operating Margin	11.9%	8.7%	8.9%	8.4%	8.4%
EBITDA Margin	13.0%	9.9%	10.3%	9.9%	9.9%
iQmethod* SM - Quality of Earnings					
Cash Realization Ratio	1.2x	0x	1.0x	1.5x	1.3x
Asset Replacement Ratio	2.5x	2.6x	1.4x	1.4x	1.3x
Tax Rate (Reported)	34.3%	33.7%	34.0%	34.0%	34.0%
Net Debt-to-Equity Ratio	-53.3%	-33.4%	-35.7%	-46.6%	-52.2%
Interest Cover	NM	NM	NA	NA	NA

Key Metrics

* For full definitions of *iQmethod* SM measures, see page 29.

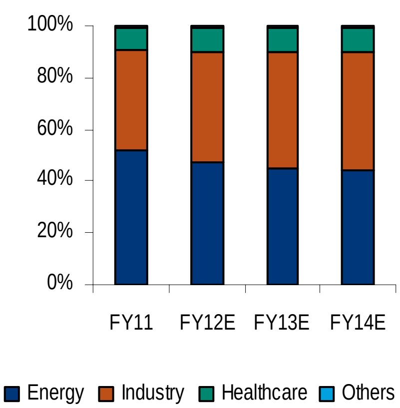
Company Description

Siemens India is the Indian listed subsidiary of Siemens AG which holds 75% stake. Siemens India operates acrosss three primary segments of Energy, Industry and Healthcare. In FY12 it will create a new business segment Infrastructure and Cities. Projects contribute 60% of revenues. With launch of mid/low cost SMART products it hopes to increase contribution of products in revenues. Its revenues & earnings have grown at a 12% and 13% CAGR FY07-11 respectively.

Investment Thesis

Our rationale for initiating coverage on Siemens India with an Underperform rating is a) Order inflows to be flat in FY12, major sectors targeted by Siemens undergoing structural downtrend, even receding cyclical headwind will not revive capex cycle in FY12 b) Margins for SMART products to remain low c) Revenue visibility reduces from 1.2x FY11 Book-to-Bill to 0.8x FY14, margins decline from 10.3% to 9.9% FY12-14, earnings growth 8% CAGR FY12-14 against 22% in FY08-11.

Chart 1: Segment wise revenue contribution



Source: BofA Merrill Lynch Global Research, Company

Stock Data

Price to Book Value	5.8x

Bull & Bear case

Theme	Bull case	Bear case	BofAML view
Order Inflows	■ Mega order s in FY12 along with continued growth in short-cycle products will set off the impact of a slowdown in industrial project capex.	■ Unavailability of fuel will impact new generation capacity addition in power, leading to slowdown in T&D capex with a lag of two years. ■ Demand for short-cycle products trips as R&M and energy efficiency led investments slow down due to lack of new industrial project capex.	■ Flat order inflow in FY12 due to lack of large order wins and largely base orders only. ■ Industrial capex should revive in FY13-14, coupled with new orders in railways and benefits from launch of low-cost products. Expect 10% YoY growth in FY13-14.
Margins	■ Company will benefit from increased localization with the launch of low-cost products and new global factories. This will allow it to be cost-competitive versus local competition. ■ Locally developed new entry-level products are 20-40% cheaper than global high-end products.	■ Margins impacted due to increased competition, entry pricing for new product launches and forex volatility. ■ Siemens also has a history of making lower margins on mega orders as parent captures major value addition.	■ We build in flat EBITDA margins for FY12-14, as we believe that the benefits of lower raw material prices will be negated by INR depreciation, coupled with pressures from new product launches and increased competition. Expect 10% margins in FY12-14. ■ Energy segment. FY12 margins to be higher by 150bp YoY at 13% as FY11 margins were impacted by provisions and forex loss. Normalized margins to remain flat. We expect competition in domestic T&D; cost of new factories will negate prov. write-backs. ■ Industry segment. Launch of new low-cost products, new factories and increased domestic competition to take a toll on margins. Expect decline of 100bp to 7.5% in FY13 from 8.4% in FY11.
SMART strategy	■ Launch of 60+ new SMART products will open up new product and business segment. ■ Volumes-led growth will set off lower margins on low-cost products.	■ SMART products continue to face competition from local players. With lower–than-anticipated volumes, margins to come under pressure.	■ Will allow Siemens India to tap new product segments and increase product focus which will bring in margin stability against volatile project margins. ■ However, initially it will resort to entry pricing as new players such as Crompton also plan to enter the industrial product segment such as motors and drives.

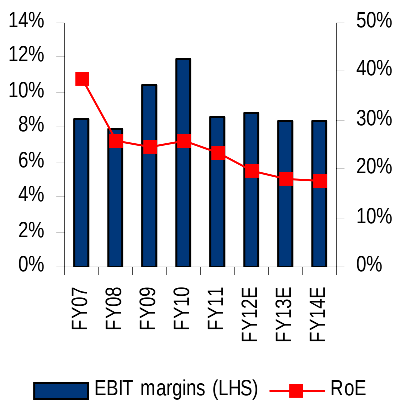
Source: BofA Merrill Lynch Global Research

Executive summary

Initiate at Underperform and Rs606 PO

We initiate coverage of Siemens India with an Underperform rating and a PE-based price objective of Rs606. We believe that in FY12, Siemens will be challenged by a decline in order inflows from traditional sectors, as lack of large (mega) orders reduce revenue visibility, coupled with lower margins in FY12-14 on account of new product launches, higher overheads, impact of lower raw material costs negated by FX variation, resulting in modest 8% earnings CAGR in FY12-14, and declining RoEs from 23% in FY11 to 18% in FY14. We seek clarity on amalgamation of Siemens VAI, consideration paid by SIEM of Rs8.8bn. We recommend selling into recent 15% price run up in past one month.

Chart 2: RoE's decline as margins under pressure



Source: Company, BofA Merrill Lynch Global Research

Key investment thesis

Another year of flat order inflows, loses out on Rs20-23bn of orders

Structural concerns to override capex plans in Power gen, Power T&D, Steel and Cement sectors

In FY12, we expect order inflows for Siemens India to remain flat (Rs119bn) for the second consecutive year, as cyclical and structural concerns delay the new domestic capex cycle and traditional customers nearly through with their investment plans. Power generation (no gas) and Power T&D (flat orders in FY12-15) have been historical drivers of inflows. Qatar power utility is in the final leg of its orders. We expect orders worth Rs20bn (FY12-13) with higher competition. Domestic metals and cement sectors have nearly completed their capacity expansion plans; hence despite lower interest rates in 2H CY12, orders from these sectors will remain subdued. Railways and metro rail segments will be the focus for Siemens to make up for the lower orders from other sectors. The company has recently lost out on Rs20-23bn of orders from MRVC for electricals and substations.

Lower revenue visibility, earnings growth and margins = Decline in RoEs

We estimate a 8% CAGR FY12-14 in earnings vs. 22% in FY08-11

As order inflows remain flat in FY12, we expect book-to-bill to reduce from 1.2x to 0.8x in FY11-14. Execution of large orders (Torrent Power, KAHRAAMA) and the launch of new entry-level products will drive revenues. However, we expect margins to decline in FY12-14 (10.3% to 9.9%) on account of lower margins from entry-level products, higher costs on account of six new factories, 12.5% INR depreciation (Oct-Dec'11) . As a result, we believe earnings growth would be lower at 8% CAGR in FY12-14 against 22% in FY08-11.

Increased product focus is a long-term positive, but to entail lower margins initially

We are positive on SMART products launch. However, volumes will not offset lower margins initially

We are positive on Siemens' strategy of addressing the mid-entry level product segment. We believe this will increase volumes, which in the long term will be able to neutralize the impact of lower margins. However, until product segments stabilize, we estimate lower margins for these products. This trend was also visible in FY11 as Industry automation and Drive technologies segment margins declined 230bp and 630bp YoY, mainly due to new product launches. Order inflows from base-level products doubled in FY11 from 5% to 10% of total as the company launched 10 new products, mostly in industry automation and power distribution segments. Further, renewed focus with a new business segment 'Infrastructure & Cities' is a positive.

Valuation rationale and key risks to our view

Our target PE of 25x March 2013 earnings is at a 20% discount to 3 year avg. of 31x

We assign a 25x PE to our March 2013 earnings estimate. Our target multiple is at a 20% discount to three-year average of 31x. Discount to historic PE builds in lower revenue, margins, earnings and RoEs. Key risks to our view are faster reversal in capex than our estimates and margins of SMART products could be higher than our estimates.

Valuations and PO

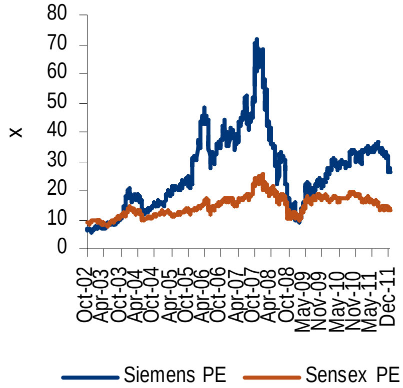
PE-based PO of Rs606; initiate at Underperform

We base our price objective of Rs606 on a target PE multiple of 25x our March 2013 earnings forecast.

Our assigned PE of 25x is at a 20% discount to its average of 31x FY08-11. We choose FY08-11 as our benchmark as the company faced a similar scenario of two years of flat order inflows, whereas revenues depended on execution of large orders (Rs36bn KAHRAAMA) won in FY07.

Discount to historic PE builds in substantially lower 8% earnings CAGR in FY12-14 against 22% in FY08-11, and RoE declines from 23% in FY11 to 18% in FY14.

Chart 3: Siemens vs. Sensex PE; SIEM still at a premium



Source: Bloomberg, BofA Merrill Lynch Global Research

FY11 relative O/P was due to corporate actions & strong revenue growth

Siemens India relatively outperformed its peers and the benchmark Sensex due to buyback of shares by parent (Siemens AG), thereby raising its stake from 55% to 75%. Secondly, it was the only company to have secured large orders and benefitted from demand for its energy efficiency short-cycle products leading to a strong revenue growth of 28% YoY in FY11, ahead of its peers.

Table 1: Stock has underperformed post 4QFY11 & outperformance in FY11

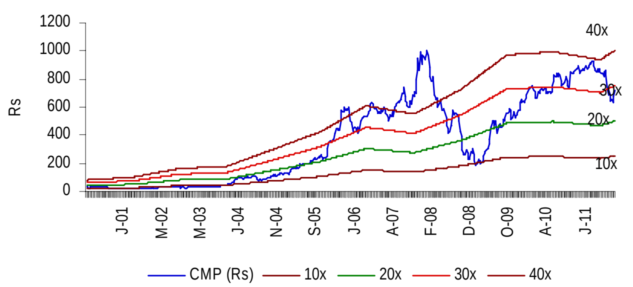
	1-M	3-M	6-M	12-M	FY11 (Sept Y/e)
Siemens	15%	-11%	-17%	-1%	0%
Sensex	4%	-2%	-12%	-13%	-20%
BSE Cap Goods	21%	-7%	-28%	-27%	-33%

Source: Bloomberg, BofA Merrill Lynch Global Research

Trades inline 3-year average PE, expect underperformance

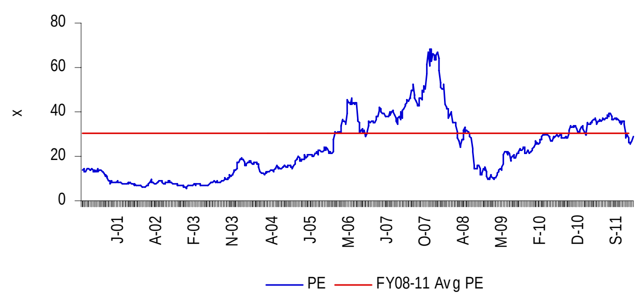
Siemens currently trades at 32x and 30x PE FY12 and FY13 respectively, which is inline its three-year average of 31x. We expect underperformance as the impact of lower earnings growth, margin pressures and RoE contraction should play out over FY12.

Chart 4: Siemens India 1-year fwd PE band



Source: Bloomberg, BofA Merrill Lynch Global Research

Chart 5: SIEM currently trades inline to its 3-yr avg PE



Source: Bloomberg, BofA Merrill Lynch Global Research

Re-rating triggers: Margin benefit from SMART products, turnaround in industrial capex

Margin expansion on SMART products and resumption of capex cycle are upside triggers

We believe that there are two re-rating triggers for Siemens, viz. **1) Structural.** Margin expansion led by growing share of SMART products in revenues. **2) Cyclical.** Resumption in capex cycle.

We currently do not expect either of the triggers to play out, as we believe margins of entry-level products will be lower due to entry-pricing strategy as well as due to overheads of new factories. Though we do not dispute the management's strategy to enter the low/mid-level product segment, we believe benefits of volumes will take time to set off lower margins.

As for the resumption in capex, we believe that despite receding macro-economic concerns in 2H FY12, structural issues pertaining to power, mining and cement sectors will continue to override capex plans of companies.

Investment arguments

Sector in a structural and cyclical downtrend

…will limit order inflow opportunities for Siemens

Despite improving cyclical data points in 2HCY12, structural concerns to discourage new capex plans in major industry segments

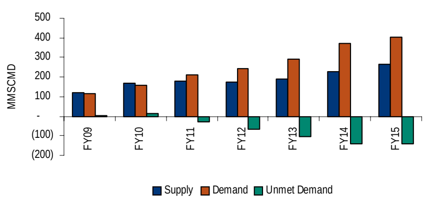
We believe Siemens will face headwinds in FY12 for new orders from key sectors that it relies on. We believe that the company will have to shift its focus from traditional sectors such as Power, Metals and Cement to sectors such as Railways and Metro rail.

We analyze opportunities in multiple segments that have historically and are expected to contribute a majority of the company's orders viz. Power T&D, Power Generation segments, Metro rail and Industry.

Future gas based power projects put on hold due to unavailability of natural gas.

We believe that unavailability of fuel (coal+gas), increased competition in international T&D and flat orders by PGCIL will limit chances of Siemens securing large orders in FY12. With domestic business confidence levels below FY09 levels and most sectors such as steel and cement in the last leg of their capacity expansion plans, we do not expect the capex cycle to resume in CY12.

Chart 6: India: Natural gas deficit will discourage new gas-based power projects



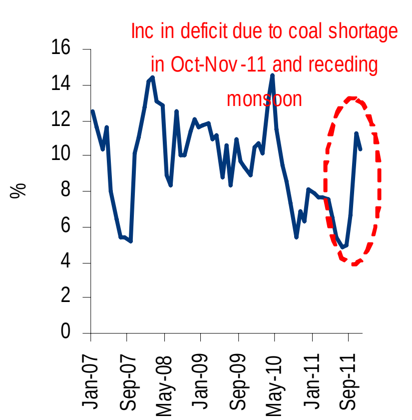
Source: MOPNG, BofA Merrill Lynch Global Research

Power generation: Gas projects, trip on fuel uncertainty

Segment outlook: Negative

With lack of clarity on availability of fuel for both coal- and gas-based power projects, utilities and IPPs have put their capacity expansion plans on hold. Other issues impacting new power capacities are timely land acquisitions and environmental and forest clearances. We expect 95GW of capacity to be commissioned over the next five years (FY12-17). Orders for main plant equipment have already been placed.

Chart 7: India Power deficit scenario



Source: CEA

Siemens India has been a major player in the combined cycle gas turbine segment, though it also undertakes eBoP for other power projects. The company can manufacture steam turbines <150MW, and eBoP + civil construction for orders >150MW which are placed on its parent. IPPs such as Torrent Power and Bajaj Hindusthan have placed orders with Siemens for 3.2GW of gas-based power projects since FY05.

Based on our Oil & Gas team's estimate, supply (including imports) of natural gas will see 14% CAGR in FY09-15 (123 to 263 MMSCMD) against MoPNG demand estimates of 22% (118 to 405 MMSCMD) over the same period, leading to a deficit of about 140MMSCMD in FY15.

In such a scenario, we do not expect any new gas-based power projects to be announced in the next two years until there is clarity on increase in production from KG D6. Until then, Siemens will rely on relatively smaller captive power projects.

Power T&D: Competitive intensity to sustain

Segment outlook: Negative

Siemens has been a beneficiary of substation orders from Qatar; it has received Rs83bn of orders from KAHRAAMA (utility) since FY05. It also has a dominant presence in the domestic T&D industry in PGCIL (16% market in substation) and SEB ordering.

KAHRAAMA nearing completion of expansion plan

We do not expect any Siemens to win large orders from KAHRAAMA in FY12. See increased competition for the balance Rs20bn of orders

We believe KAHRAAMA has completed a majority of its ordering. It placed its latest order on L&T (Rs12bn, July'11) for 220/132KV substations. For the balance two packages (combined value of about Rs20bn), we foresee increased competitive intensity given the slowdown in orders for T&D equipment in the respective home countries/regions. Further, there is no major power T&D project planned in the first phase of development for the Football World Cup 2022.

Table 2: Opportunities from KAHRAAMA

Substations	Scope	Approx Value (Rsmn)	Year of award	Contractor
Package-5&6	SS & EHV cables	25,850	2005	Siemens India & Siemens AG
Package-7	220/132/66KV SS	55,484	2006	ABB, Siemens India & Siemens AG
Package-8	132KV SS	13,250	2008	Areva T&D, Isolux Corsan, L&T, Hyundai
Package-9	33 SS 220/132KV	67,500	2010	Siemens India & Siemens AG, Hyosung Korea
Package-10	220/132/66KV SS	12,105	2011	L&T
Package-11	66KV 4 GIS at HOD-1&2, Sheraton Park, Barwa Al Doha	15,900	NA	To be awarded
Package-12	66KV 1 GIS Grand Ahmad Ave	3,975	NA	To be awarded

Source: KAHRAAMA, BofA Merrill Lynch Global Research

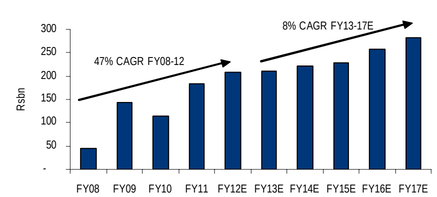
PGCIL orders near cyclical peak; growth to slow

- 63% of PGCIL's 12th Plan ordering to be project based: Delays in adding power-generation capacity due to the lack of availability of coal and SEB losses will impact orders for T&D equipment.

- High-voltage, direct current (HVDC) orders out of the bag: After the North-East Region (NER) HVDC project (ABB-BHEL), PGCIL will be awarding the Kurukshetra-Champa HVDC project in FY12/13. Thereafter, it has no major HVDC project planned until FY14-15 (Raigarh-Dhule 4000MW).

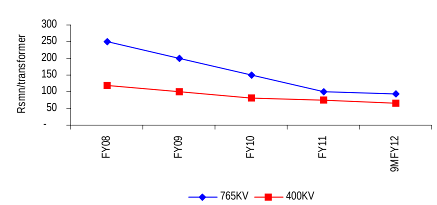
- High base: Having completed its 11th Plan orders, PGCIL has concurrently announced 12th Plan orders. We expect Rs210bn worth of orders in FY12, up 14% YoY, thus leading to a high-base impact for FY13-15 and a modest 3% growth in orders for FY12-15. Like any other plan, orders under the 12th Plan will be back-ended, as we expect orders in FY15-16 to record 15% CAGR.

Chart 8: PGCIL's orders expected to remain flat for FY12-15



Source: PGCIL, BofA Merrill Lynch Global Research

Chart 9: Price of a 765KV transformer now similar to 400KV in FY08

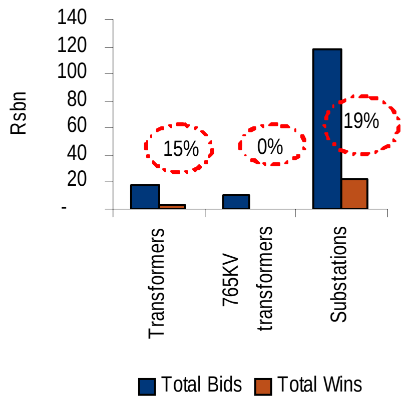


Source: BofA Merrill Lynch Global Research

With slower ordering, price competition to continue in PGCIL orders

Dilution of pre-qualification norms by PGCIL in 2010 for 765KV substations allowed new entrants. Until then, MNCs (Siemens, ABB and Areva T&D) had a major share in this segment. In the transformer segment, the entry of Chinese and Korean manufacturers has caused a 50% decline in price for a 765KV transformer since FY08. With PGCIL order growth slowing, we expect competitive intensity to remain high in FY12-13.

Chart 10: Siemens strike rate in PGCIL orders (FY09-12)



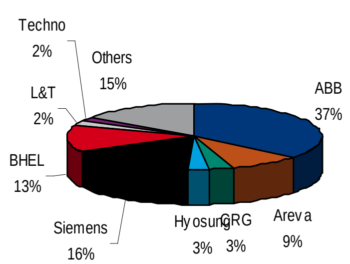
Source: BofA Merrill Lynch Global Research, PGCIL

Siemens has a higher market share in PGCIL substation orders at 16% against transformer where its share is 7% for orders awarded in FY09-12 (until Nov'11). It has not won a single order for 765KV transformer despite having a fully localized factory at Kalwa since FY10.

SEB & BOOM projects are opportunities, but competition may increase

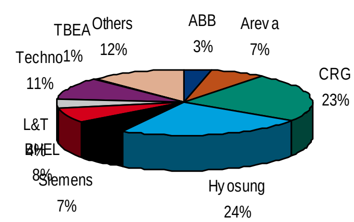
On the other hand, orders from State Electricity Boards (SEB) and the private sector are expected to grow on the back of state elections and new BOOM projects. However, our channel checks suggest that international players – expected to set up local manufacturing capacity – will also bid for orders in various states, which otherwise was mainly catered to by domestic companies.

Chart 11: Siemens has a 16% market share in PGCIL Substation orders



Source: PGCIL, BofA Merrill Lynch Global Research

Chart 12: Siemens has lower market share of 7% in PGCIL transformer orders



Source: PGCIL, BofA Merrill Lynch Global Research

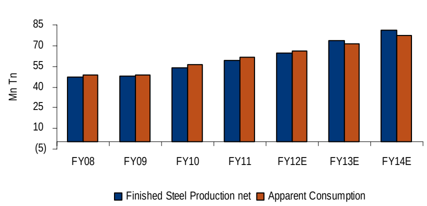
Industrial capex impacted by high interest rates, policy inaction, and major industries in execution phase

Segment outlook: Negative

Since FY11, slowdown in capex has been led by cyclical issues such as higher interest rates (up 525bp since FY10), followed by labor inflation, structural issues such as lack of clarity of key policies (land acquisition, mining bill, environment clearances) and many of the industries such as steel and cement have already placed orders for a major part of their expansion plans and are now in the execution phase.

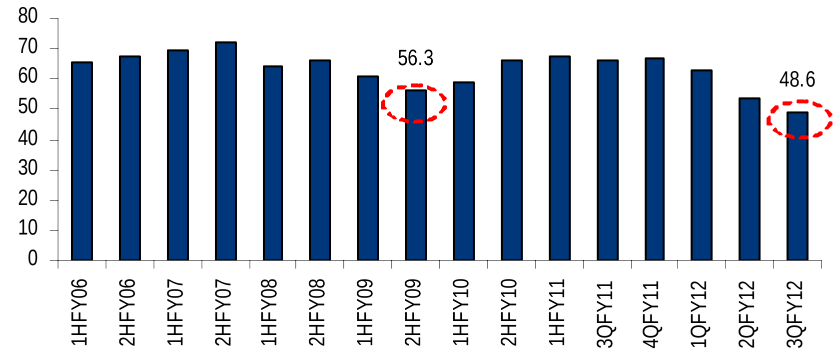
Hence, despite the lower interest rates, we do not expect orders from key sectors to pick up in FY12.

Chart 13: India Steel capacity to increase by 22Mn tn FY11-14, orders already placed



Source: BofA Merrill Lynch Global Research

Chart 14: Business confidence levels below FY09 lows



Source: CII

India cement sector in a state of overcapacity FY11-13. To determine future capacity addition plans

Table 3: India Cement sector in state of overcapacity FY11-13

MTPA	FY09	FY10	FY11	FY12E	FY13E
Reported cement capacity	216	256	300	330	353
Effective cement capacity	202	234	274	310	330
Effective clinker capacity	167	197	236	271	289
Capacity growth	*20%*	*18%*	*20%*	*15%*	*7%*
Demand	181	200	209	217	237
Demand growth	*8%*	*10%*	*5%*	*4%*	*9%*
Surplus / (Deficit) capacity	(14)	(3)	27	54	52

Source: BofA Merrill Lynch Global Research

Suburban rail projects

Segment outlook: Negative

With development of metro projects in all major cities, opportunities from traditional suburban rail projects have reduced. However, Mumbai Rail Vikas Corp (MRVC, nodal agency) has planned a $970mn investment to procure new passenger rakes, and changing voltage from DC to AC. A similar program was undertaken in FY04-05 by MRVC (MUTP-1) wherein it bought 190 EMU's and converted western line of Mumbai from DC to AC. Siemens was one of the biggest beneficiaries in MUTP-1 as it won an order worth Rs9bn to supply electrification works for 159 EMU's.

MRVC plans to invest $970mn in its new project MUTP-2A

MUTP-2A… a Rs20-23bn opportunity lost

Siemens lost out on two major orders ($400-450mn). 1) Electricals for 864 EMU's. 2) Voltage conversion from DC to AV.

Under MUTP-2A, MRVC plans to procure 864 new coaches (72 rakes) and convert the voltage in its central line from DC to AC. The project will be funded by way of IBRD loan from World Bank ($430mn), and the balance $540mn by Govt of Maharashtra and Ministry of Railways guarantees.

We understand from our channel checks that Siemens was unable to tender its bid for the rakes as the bidding coincided with the global ban on Siemens to participate in any World Bank funded order. The Rs13bn order has been awarded to Bombardier. As for the voltage conversion, Rs8-10bn order was placed on Isolux.

Table 4: Area of investments under MUTP-2A

Projects	Scope	Expected completion	Total Cost ($mn)	IBRD Loan ($mn)	Counterpart funding ($mn)
Rolling stock fleet increase	864 new EMU's to be sourced from Chennai Coach factory	FY15	660	356	304
DC to AC conversion	Change 3 sections on Central Railway networks from 1500V DC to 25KV AC. Will require installing new substations, overhead lines and modifying signal & telecom systems	FY13	174	55	119
EMU Maintenance facilities and stabling lines	73 new stabling lines to be built	FY14	118	-	118
Technical assistance		FY14	15	14	0
Others			5	5	-
Total			970	430	540

Source: Worldbank

Railways… its been a long wait

Segment outlook: Positive

Supplying electricals for loco factories and DFC are opportunities for SIEM in railway sector

We believe that investments in the railway sector along with mining would be a major driver of the next capex cycle taking over from Power. Though the planned investments in the sector are huge and varied, we see two major opportunities from Indian Railways for Siemens to participate 1) Dedicated Freight Corridor (DFC). 2) Locomotive & Coach factories on PPP.

DFC: Finally taking shape

We see an Rs24-40bn opportunity for SIEM in DFC. Expect orders to be placed in CY12-13

DFC is spread across western corridor (Rewari-JNPT, 1490Km) and eastern corridor (Dankuni-Ludhiana, 1805Km) and has a total project cost of Rs800bn. Western corridor is being funded by Japanese financial institutions, while the eastern corridor will be funded by the World Bank. Tenders for major civil construction and track laying (Rs60bn) have already been announced for both the corridors.

We see opportunity for Siemens in traction & signaling, orders for which have still not been placed. Siemens India has gained experience in the railways sector by executing jobs for Mumbai suburban rail projects and the metro projects for Mumbai, Delhi, Chennai and Kolkata. Typically, the scope handled by Siemens India forms about 3-5% of the project cost, thus giving an opportunity of Rs24-40bn. In addition, locomotives will be sourced from the factories on PPP.

Table 5: DFC corridor completion targets and funding details

Corridor/Phase	Project	Length (Kms)	Scheduled completion	Funding source
Western Corridor				
Phase-1	Rewari-Vadodara	920	FY17	Rs45bn loan from JICA has been signed. Rs115bn loan from JICA is under negotiation. Balance to be funded by MoR
Phase-2	Vadodara-JNPT	430	FY18	
Phase-3	Rewari-Dadri	140	FY18	
Western Corridor total		1,490		
Eastern Corridor				
Phase-1	Khurja-Kanpur	343	FY17	Ludhiana to Mughasarai phase funded by World Bank loan of $975mn
Phase-2	Kanpur-Mughalsarai	390	FY17	
Phase-3	Khurja-Ludhiana	397	FY17	
Phase-4	Dankuni-Sonnagar	550	FY17	PPP
Phase-5	Sonnagar-Mughasarai	125	FY17	Ministry of Railways funded
Eastern corridor-total		1,805		
Total		3,295		

Source:DFCIL

Rail loco & coach factories… still some clarity required

Indian Railways plans to award three locomotives (Madhepura, Marhoura, & Dankuni) and a coach factory (Kanchrapara) on PPP basis, wherein Indian Railways (IR) will hold a 26% stake. However, these projects have been delayed since 2008. Technical bids have been submitted but the delay is mostly due to prolonged due diligence by the railways.

Award of Madhepura loco factory on PPP continues to be delayed. Whereas coach building facility at Kanchrapara will be awarded to BHEL and SAIL

Siemens' management mentioned that it had bid for the Madhepura and Kanchrapara factories. The Madhepura project initially required a total supply of 660 locomotives of 12000HP over an 8-year period and service and maintenance arrangement for the subsequent 15 years. However, we understand that the tenure and the quantum of off take are under re-negotiation. We believe that though the parent (Siemens AG) has the technology to manufacture high-speed locos, Siemens India would be providing electric components for locos such as traction & sensor technology.

Madhepura award in FY13, Kanchrapara on nomination to BHEL-SAIL

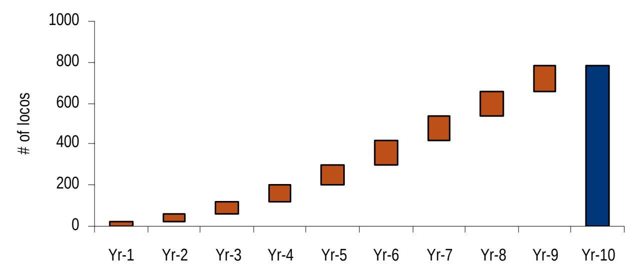
Given it is the first project on PPP, Indian Railways have been slow on due diligence. However, through our channel checks, we gather that Madhepura will be awarded in FY13. As for Kanchrapara, we understand that it will be awarded to BHEL-SAIL on nomination basis.

Table 6: List of original bidders for locomotive and coach-building projects

Marhoura diesel loco	Madhepura electric loco	Kanchrapara coach factory
GE	Alstom	Alstom
EMD	Bombardier	Bombardier
	GE	Siemens
	Siemens	CAF
		Hyundai Rotem
		Jindal-Hitachi
		Texmaco-Kawasaki
		ABB-Stadler-TWL

Source: Media Reports

Chart 15: Madhepura indicative offtake plan;



Source: BofA Merrill Lynch Global Research

Metro projects: in eight cities and counting

Segment outlook: Positive

SIEM has been a beneficiary of all major metro projects in India.

Development of metro projects in tier-1&2 cities in India has picked up steam more so after the success of Delhi Metro. In order to address the growing opportunity, Siemens has reclassified mobility and railway logistics in a new business segment 'Infrastructure and Cities'. Siemens India has so far been involved with all major metro projects in the country.

Table 7: Metro Rail projects order won by Siemens India

Year	Project	Order value (Rsmn)	Scope
2004	Delhi Metro	2,770	Signaling and communication package
2008	Mumbai Metro	840	Signaling & Train control
2009	Delhi Airport Link	2,340	Signaling, Electrification and Traction
2010	Gurgaon Rapid Metro Rail	Not disclosed	Turnkey order for five metro cars, traction, signaling, electrification and SCADA
2011	Chennai Metro Rail	5,850	Electrification & Signaling, Platform screen doors and Telecommunications, Design and Build, in collaboration with Siemens AG
2011	Kolkata Metro Rail	1,620	Railway electrification systems for Kolkata's new east-west metro line; in collaboration with Siemens AG

Source: Company

Siemens expanding scope and focus to tap opportunity

It is expanding its scope to address a larger opportunity from its earlier 3-5% of project cost

Based on our analysis, we believe that about eight metro projects are under development and construction with a total project universe of Rs600-700bn. Until FY10, Siemens mostly undertook projects related to signaling, electrification, and traction control. However, in FY11, it has taken its first turnkey project for development of the Gurgaon Rapid Metro Project which also involved supply of metro cars in addition to its usual scope of electrification, signaling and train controls. Based on this, we believe Siemens India will address a larger opportunity size than earlier which was limited to 3-5% of the project cost.

Three projects in advanced stage

Jaipur, Ahmedabad and Hyderabad metro's are near term opportunities

We believe projects that have reached the stage of ordering are Hyderabad, Jaipur and Ahmedabad and this provides near-term visibility for the company for orders in FY12-13.

Table 8: Planned Metro Rail Projects

Name of the Study / DPR	Corridor	Client Organization	Cost Rsbn	Length Kms
Ahmedabad-Gandhinagar Metro Line	From Gandhinagar to proposed GIFT City and Dholera SIR at Ahmedabad	GIDB, MEGA	25-32	32
Jaipur Metro	Corridor-1 Sitapura-Ambabari; Corridor-2 Mansarovar-Badi Chaupar	JMRC	20	35
Hyderabad Metro	Corridor-1 Mlyapur to LB Nagar; Corridor-2 Shllparamam to Nagole; Corridor-3 JBS to Falaknuma	L&T	150	72
Mumbai-2	Charkop-Bandra-Mankhurd	MMRDA / Reliance Infra	83	32
Mumbai-3	Colaba-Bandra	MMRDA	94	21
Bangalore metro Phase-2	Byappanahalli and Electronics City, Byappanahalli and Whitefield	BMRCL	147	51
Bangalore Airport High Speed Rail link	Cubbon to BIAL	BMRCL	60	35
Ludhiana Metro project	Ayali to BBMB chowk, Gill village to Rahon Road	BOT	87	29
Total			666	

Source: DMRC, BofA Merrill Lynch Global Research

Long term positives

1) Low cost product strategy. Onto something big

Getting SMART = Simple + Maintenance friendly + Affordable + Reliable + Timely to market

We are positive on SIEM's strategy to launch of mid-entry segment products as they would increase volumes.

In FY10, Siemens India launched its strategy of introducing products that address the mid-to-entry level segments. We believe that with higher localization, through new factories the company will be able to address the low-cost segment. In our view, this would open up volume floodgates for its products which until now were being targeted at high-end segments. Siemens' management estimates that India has €70bn market potential for base-level products.

Positive track record on localization + success in China may not mean better margins

SIEM has a had a track record to localize products/technology faster than peers. Also SMART in China has been a success

We are positive on Siemens's strategy of launching entry-level products as historically it has always been ahead of its MNC peers to localize products and technology in India. Siemens has also achieved success in China using this strategy since FY05, which it plans to replicate in India.

However, we believe that initially margins for these products would be substantially lower than its existing base business given it would have to incur capital costs to set up local manufacturing capacities coupled with using entry-pricing strategy. Hence, we believe that to start with volumes will not compensate for margin erosion.

SIEM plans to set up six new factories FY12-14. Will aid localization of products help reduce costs by 20-40%

Local factories + Local R&D + Local design = 20-40% cost savings

Siemens plans to set up six new factories over the next two years (FY14) with an investment of Rs16bn. Factories for Med. Voltage GIS, RMU's and Power relay systems are expected to be operational in 1Q FY12. These factories will be used for domestic demand and also by Siemens global operations to source these products from India.

2.3MW wind turbine and blade factory at Baroda is expected to come on stream by 4Q FY13. Other factories for Power transformer, Industrial Fan and Geared Motors are also expected to be operational before FY14.

Based on management estimates, introducing local designed products would result in 20-40% cost savings against a fully sourced global high-end product.

Table 9: Siemens India new factories

Products	Location	Expected CoD
MV GIS & RMU	Goa	1QFY12
Power Relays & Systems	Goa	1QFY12
Wind Turbine & Blade	Baroda	4QFY13
Power transformers	Baroda	by FY14
Industrial fans	Baroda	by FY14
Geared Motors	Chennai	by FY14

Source: Company

Orders for SMART double in FY11; 60+ products in pipeline

During FY11, Siemens India launched 10 new products across segments (see Table10). As a result, order inflows from these low-cost products increased from 5% in FY10 to 10% of total in FY11. We believe that a part of the strong revenue growth in segments such as Industry Automation, and Drive Technologies was driven by new product launches. The company mentioned that it is in the process of developing and launching an additional 48 products.

Table 10: SMART products launched in FY11

Product	Segment
Sinamics V50 LV Drives	Drive Technologies
SIBAG Vario belt	Industry automation
420kV, 63kA horizontal DB isolator	Power Dist
145kV to 420kV, 50kA isolators	Power Dist
MV GIS upto 36kV	Power Dist
145kV HV AIS circuit breaker	Power Dist
245kV HV AIS circuit breaker	Power Dist
Feeder remote terminal units	Industry automation
Geared motors	Drive Technologies
MP450 X-ray generator	Healthcare

Source: Company

Volumes vs. margins the eternal debate. We build in lower margins

We build in lower margins for SMART products initially due to entry pricing, increased overheads

Though we agree that launch of base-level products would be a game changer for Siemens due to high volumes, we also believe that initially it would result in margin dilution.

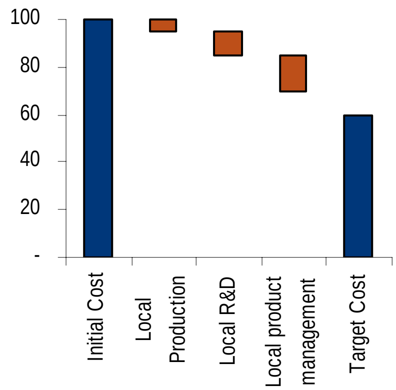
This trend was visible in FY11 itself as margins for Industry automation and Drive technologies segment declined by 230bp (7.8%) and 630bp (6.5%) YoY respectively, despite revenue growth of 38% and 87% YoY.

Since we expect the company to continue to launch new products in FY12-13, we build in lower margins. We expect company-wide EBITDA margins to decline from 10.4% in FY12 to 9.9% in FY14 mainly on account of increasing proportion of revenues from entry-level products.

SMART in China - a case study

Siemens initiated its SMART strategy in FY05 by launching five products. As of FY10, it had more than 120 SMART products.

Chart 16: Product costs decline by 20-40% with SMART



Source: Company

MV switchgears (NXAirS): During 1994-2006, the company marketed its locally manufactured global design switchgear which allowed it high margins. However, in 2007-2008, local competitors crowded out high-cost suppliers such as Siemens. In 2009, Siemens launched locally developed (R&D), sourced components and manufactured MV switchgear which cut costs by 20% and helped improve market share by 4x to 10% over the next three years.

Line HMI Panel (industry automation): Line HMI panels are used in industry automation and are part of SCADA systems; it allows the operator to monitor multiple activities on a single screen (panel). Until 2010, Siemens had <4% market share as the product was not adapted to Chinese requirement. Its price was 35% higher than local competitors. In 2Q FY10, it launched a locally designed and manufactured product that allowed it to close the gap on pricing and also increased volumes by 15x.

2) Increasing product focus, new business segment

As of FY11, Products contribute 40% of revenues for Siemens. We expect contribution of products to gradually increase as the company launches its SMART products, coupled with renewed focus on account of creation of a new business segment ‘Infrastructure and Cities’. We believe increased share of product revenues will also bring in margin stability.

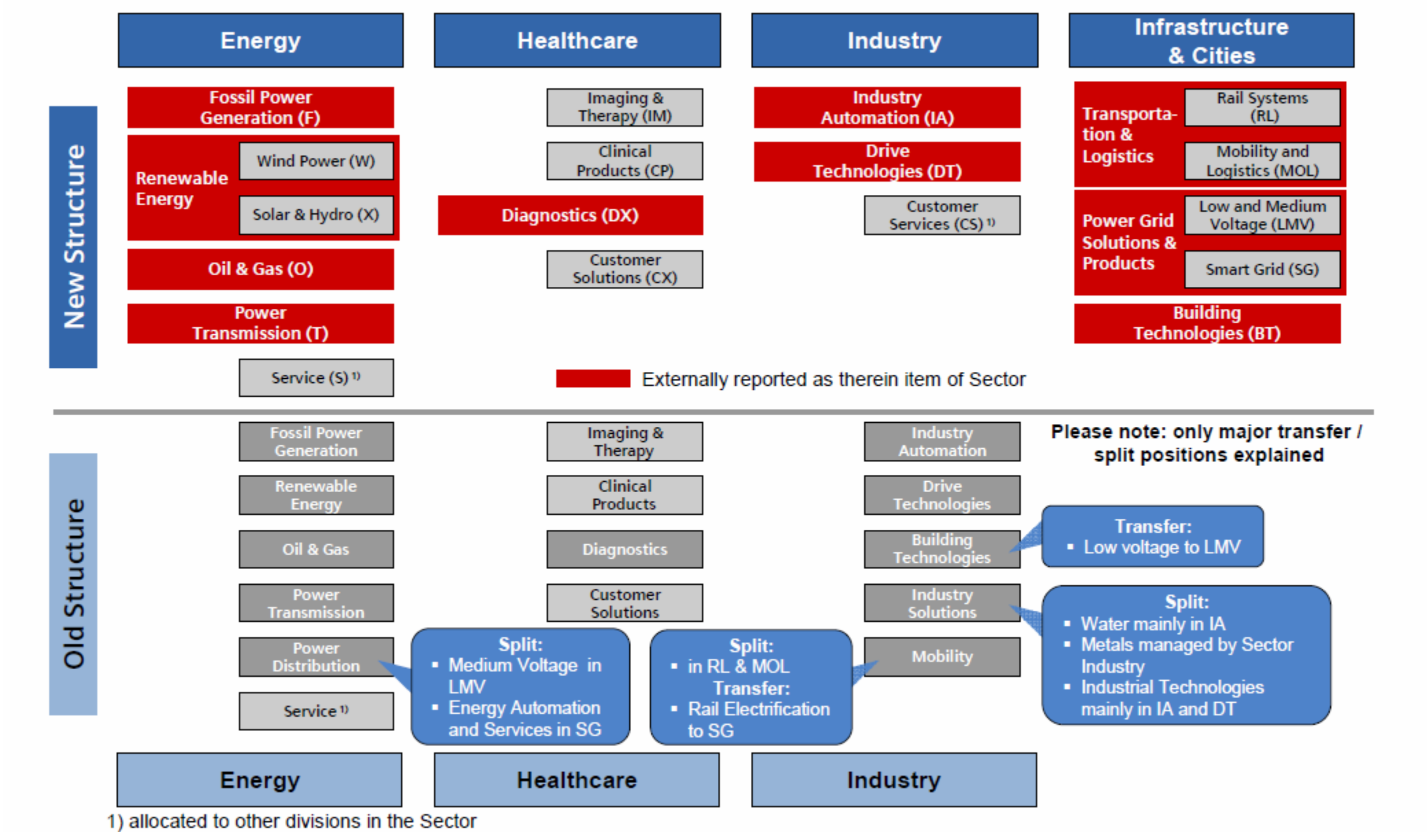
Infrastructure & Cities: Mix of products & projects, lower band of margin profile

Infra & Cities will renew focus on Mobility and Power distribution products

In FY12, Siemens will carve out a new business segment which will enable it to focus purely on all infrastructure requirements of a city right from planning to commissioning. The new segment will mostly include existing segments except Smart grid, which is a new addition. It will have a near equal mix of project segments such as Rail systems, Mobility and Logistics, Smart Grids, and product segments such as Low and Medium voltage products and Building technologies.

However, in a conference call held by Siemens AG (parent), management said it expects EBITDA margins in the 8-12% range for this segment, thus keeping it in a lower quartile of the margins when compared to other segments - Energy (10-15%), Industry (11-17%) and Healthcare (15-20%).

Exhibit 1: Siemens' new reporting structure from FY12



Source: Company

Amalgamation of Siemens VAI… we seek clarity

In FY11 Siemens India decided to amalgamate its parent group company Siemens VAI Metal Technologies (VAI). VAI operates mostly in the industrial plant construction business primarily for the metal sector.

Siemens India has received the requisite court approval to merge VAI with itself on 6th January 2012. It is awaiting shareholder approval in its AGM to be held on 31st December 2012. Siemens India will issue 1318 shares (FV Rs2) for every 100 shares of VAI (FV Rs100), entailing an equity dilution of 3% for SIEM.

We estimate the consideration paid by SIEM to VAI shareholders based on the closing price of filing the approval with the exchanges (17th January 2012) at Rs8.8bn. Being an unlisted company in India details on VAI's revenues and balance sheet details are not available. And hence we seek greater clarity on the same before we can comment on the merger being earnings accretive/decretive for SIEM.

Table 11: Merger of VAI costs SIEM Rs 8.8bn and 3% equity dilution

Share exchange ratio	shs	FV (Rs)
Siemens India issues	1,318 for	2
Siemens VAI	100	100
Shs O/s of VAI (mn shs)	0.89	
New shs (mn) issued by Siemens India (A)	11.7	
Pre-merger Sh cap of Siemens India (mn) (B)	340.3	
Post merger Sh cap of Siemens India (mn) (A+B)	352.0	
% dilution	3.4%	
CMP on 17th Jan 2012 (Rs)	750.7	
Consideration paid for VAI merger (Rsmn)	8,812	

Source: Company, BofA Merrill Lynch Global Research

Key risks

Reversal in capex faster than our estimates

We see two issues impacting the capex cycle: 1) Cyclical headwinds such as high interest rates and inflation 2) Structural challenges such as difficulty in acquisition of land, unavailability of fuel (coal + gas). Sectors such as cement and steel are already through with their capex plans and it is execution time now.

If structural concerns across multiple sectors: power, metals and cement get sorted a new capex cycle could ensue faster than we estimate. A key risk

Though the former concern is expected to recede by 2H FY12, we believe structural headwinds will continue to override capex plans of key sectors such as power, cement and metals & mining. Thus, we believe that even conducive interest rate regime in FY12 will not kick-start a new capex cycle.

A faster reversal in capex cycle in primary industry segments is a key risk to our thesis.

Margins of SMART products could be higher than our estimates

If SMART products have a higher than estimated margins from the start is another risk to our estimates

Though we are positive on the prospects of Siemens India's ability to benefit from its low-cost product strategy, we believe that since it is in the launching phase of 60+ products, this would entail lower margins until the product segment stabilizes. This we believe will impact industrial segment margins in FY12-13 before improving in FY14.

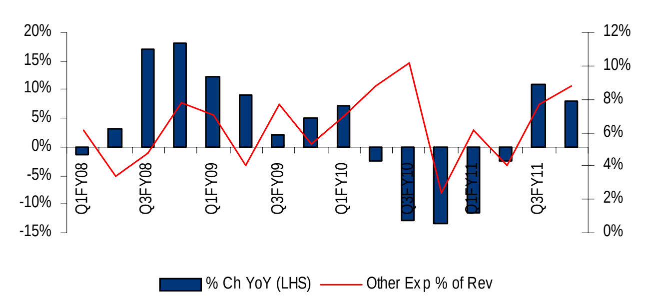
A faster-than-estimated improvement in industrial segment margins remains a risk to our view.

Forex volatility a double-edged sword

SIEM is a net imprters will get impacted/benefit from Fx variation. Expect negative impact in 1HFY12

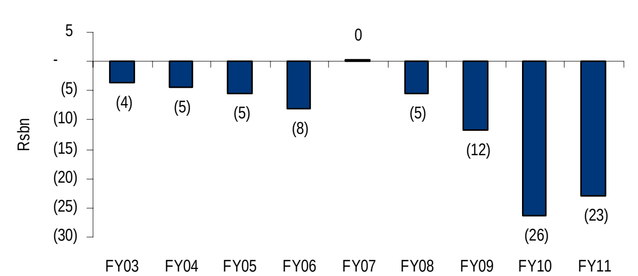
INR depreciation against the Euro will impact Siemens' 1H FY12 results. We believe that the proportion of local manufacturing will materially increase only post its local factories are operational by FY14. Until then, we expect the company to remain a net importer of products and raw materials. In 4Q FY11, an 8% YoY INR depreciation against the Euro resulted in a forex loss of Rs1.6bn. In 1Q FY12 so far, the Indian currency has further depreciated by 12.5% YoY, which we believe would impact its quarterly results.

Chart 17: INR: Euro movement YoY impacts other exp as % of rev



Source: Bloomberg, Company, BofA Merrill Lynch Global Research

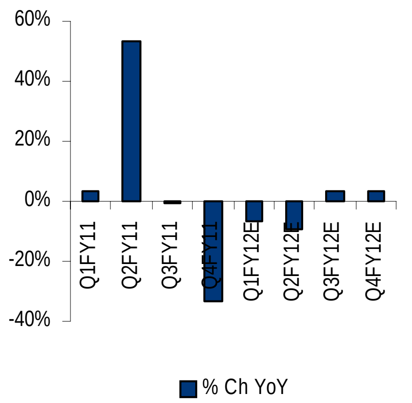
Chart 18: Siemens India historically has been a net importer



Source: Company, BofA Merrill Lynch Global Research.

Financial Analysis

Chart 19: Earnings volatility to continue in FY12

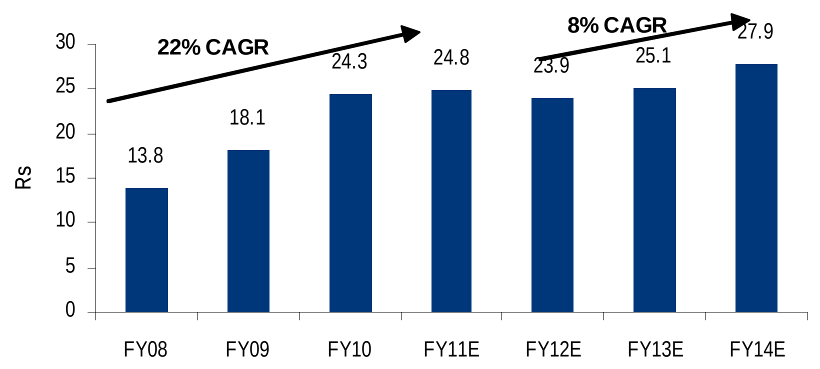


Source: BofA Merrill Lynch Global Research, Company

Lower earnings growth in FY12-14; impacted by flat inflows & margins

We expect FY12-14 earnings CAGR of Siemens to be 8% against 22% in FY08-11. As we believe a) order inflows in FY11-12 will remain flat as the company will find it difficult to secure mega orders in FY12, and b) there will be increasing competitive intensity in power T&D, new product launches and foreign exchange volatility will keep margins under pressure over FY12-14 at 10-10.5%. Lower margins will impact RoEs, which we expect will decline from 23% in FY11 to 18% in FY14. However, we expect Siemens to be FCF-positive despite increased capex and a tight working capital scenario.

Chart 20: 8% adjusted EPS growth in FY12-14 vs 22% in FY08-11



Source: BofA Merrill Lynch Global Research, Company

We build in flat order inflows in FY12 for SIEM at Rs119bn

FY10-11 inflows set high base. Current environment not supportive. Build in flat inflows for FY12

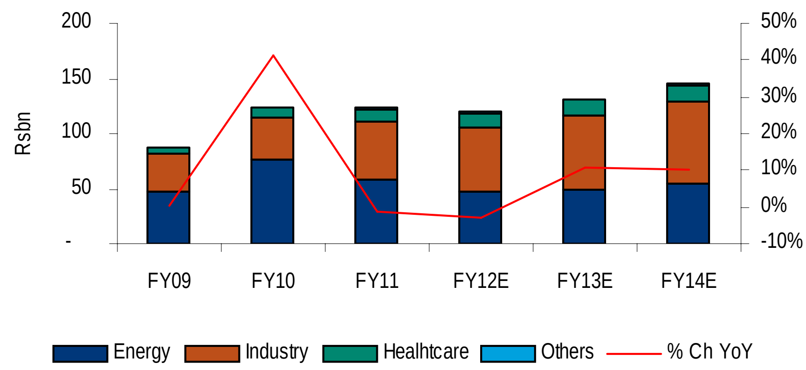
In FY10-11, Siemens won three mega orders totaling Rs52.5bn (21% of total) in the power gen, power T&D and mobility segments. However, we see little scope for such orders in FY12 as issues relating to unavailability of fuel (coal & gas) defer power capacity addition plans in India, coupled with increased competition in the MENA transmission orders. These segments have previously been a beneficiary of mega orders.

FY13-14 order inflows to improve on back of railways, industrial capex and elections

Order inflows in FY13-14 to improve as macro headwinds fade, and due to railway orders and elections

In FY13-14, we expect a pickup in order inflows and build in 10% YoY growth on the back of revival in industrial capex as macro headwinds recede, infrastructure orders will be led by capex in railways for which we believe Siemens is well positioned. Electrification, traction and signaling for metro and DFCIL projects, and new locomotive and coach factories will be opportunities for the company. We also expect overall ordering environment to improve before the general elections in 2014.

Chart 21: Order inflow to remain flat in FY12; recovery in FY13-14



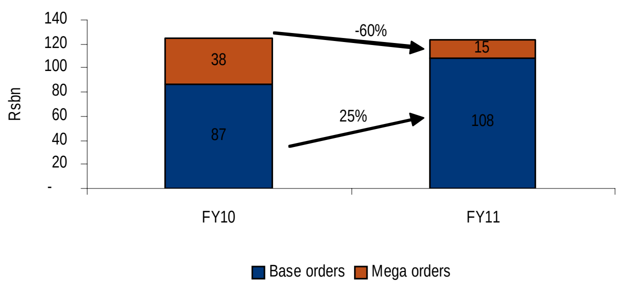
Source: BofA Merrill Lynch Global Research, Company

SIEM book to bill reduces from 1.2x FY11 to 0.8x FY14

Order book peaks in FY11 = declining book-to-bill

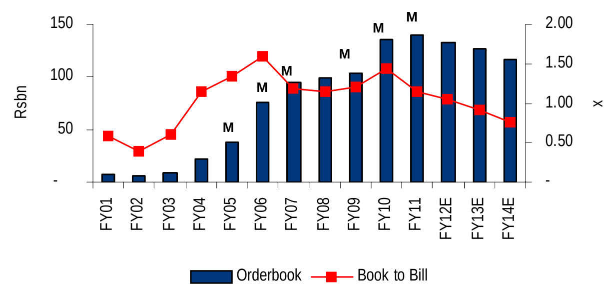
We assume flat order inflows in FY12 at Rs126bn, which will be mainly contributed by base orders (less than Rs5bn). In FY11, mega orders de-grew 60% YoY, and order inflow momentum was maintained by base orders, which grew 25% YoY. We expect a similar trend in FY12. As order inflows remain flat, we expect book-to-bill to reduce from 1.2x in FY11 to 0.7x by FY14.

Chart 22: FY11 base orders made up for lack of mega orders, continued trend in FY12 as well



Source: Company

Chart 23: Order book peaked in FY11, B-t-B declines as inflows flat

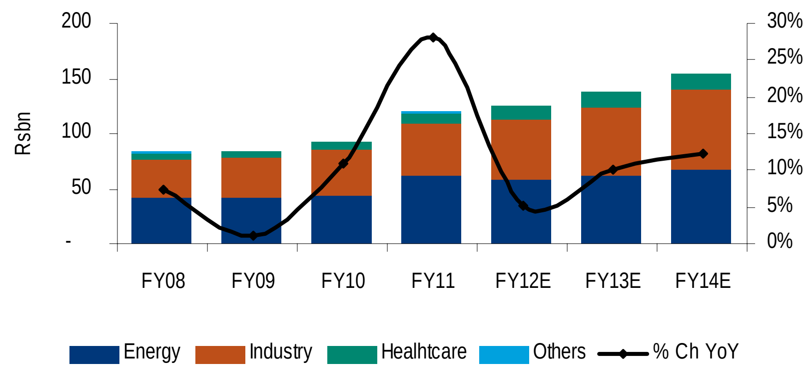


Source: BofA Merrill Lynch Global Research, Company, M=Mega orders

Execution of mega orders & launch of low-cost products will be revenue drivers

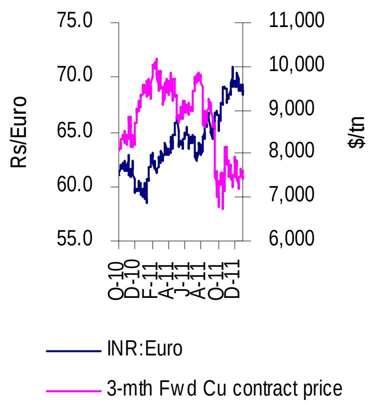
11% CAGR in revenues in FY11-14 will be driven by execution of mega orders in the energy segment, continued traction for its short-cycle products and launch of SMART (entry-level) products will aid growth in industrial & healthcare segment revenues.

Chart 24: Segmental revenue growth trends, 11% CAGR in FY11-14



Source: BofA Merrill Lynch Global Research, Company

Chart 25: INR: Euro vs. Copper prices

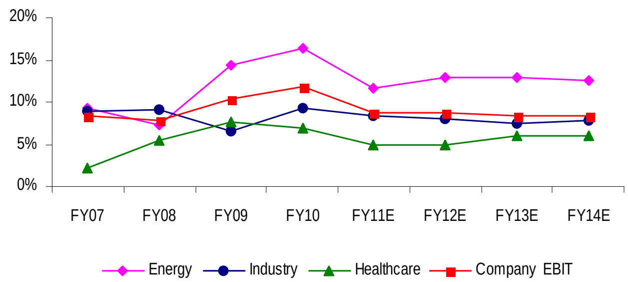


Source: Bloomberg, BofA Merrill Lynch Global Research

Lower margins on large orders + new product launches + forex volatility offsets raw material price fall = lower margins in FY12-14

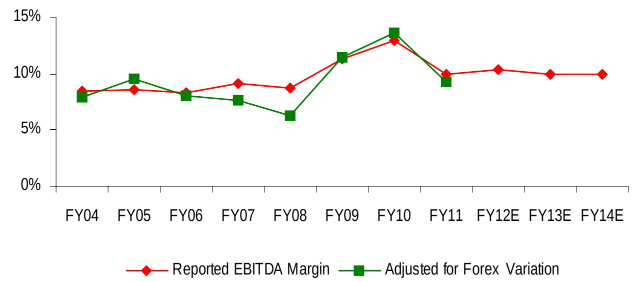
We estimate EBITDA margins of 10% in FY12-14 based on four assumptions: 1) Historically, Siemens India has made lower margins in mega orders as most value is captured by the parent company. We expect a similar trend once the execution of Torrent Power order picks up pace in FY12-13. 2) Impact of increased competition in sectors such as power T&D, especially in PGCIL orders. 3) New product launches as part of SMART portfolio in industrial and energy segments will entail lower margins on entry pricing. Lastly, 4) we believe that the impact of lower raw material prices will be negated by INR depreciation, at least in 1H FY12. Copper prices (major raw material) in 1Q FY12 have declined 12% YoY. However, INR has depreciated against the euro by the same quantum.

Chart 26: Segment vs. company EBIT margins



Source: BofA Merrill Lynch Global Research, Company

Chart 27: Reported EDITDA margins to remain flat in FY12-14



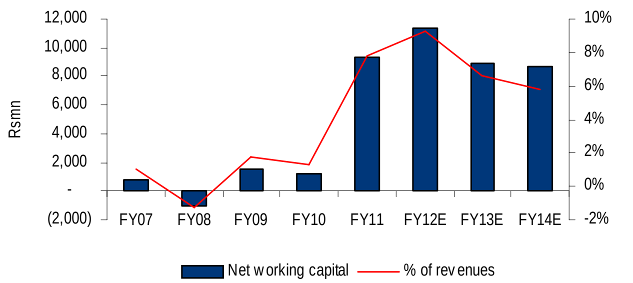
Source: BofA Merrill Lynch Global Research, Company

Superior working capital management leads to FCF positive despite pressure on margins

Despite increased capex, FCF-positive on superior working capital management

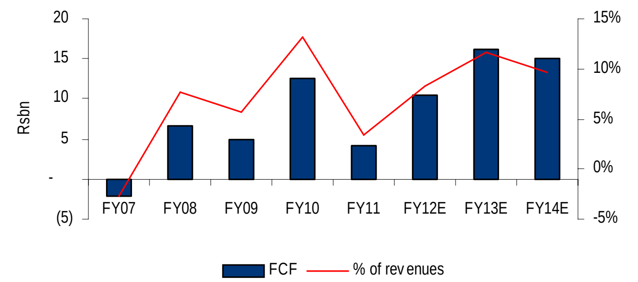
Siemens' capex plans for FY10-14 are Rs16bn, mainly to set up six new factories. Despite its aggressive capex plans, we believe Siemens will continue to remain FCF-positive due to its superior working capital management. In spite of near-term concerns on lower customer advances due to flat order inflows, higher ICD to subsidiaries and higher retentions as part of debtors, we expect net working capital to reduce from 8% of revenues in FY11 to about 3% by FY14.

Chart 28: Net working capital to reduce from 8% of revenue in FY11 to 3% in FY14



Source: BofA Merrill Lynch Global Research, Company

Chart 29: Despite higher capex of Rs160bn in FY10-14, FCF positive



Source: BofA Merrill Lynch Global Research, Company

RoE's decline from 23% in FY11 to 18% in FY14

RoE decline due to margin pressures

On the back of flat margin and lower asset turn, we expect RoE to decline from 23% in FY11 to 18% in FY14.

Table 12: RoE decomposition-Dupont Analysis

	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E	FY14E
EBIT margin	8.5%	7.9%	10.4%	11.9%	8.6%	8.8%	8.4%	8.4%
Asset Turnover	5.8	4.5	3.4	2.9	3.3	3.0	2.9	2.9
Tax impact	65.1%	61.1%	61.4%	65.7%	66.3%	66.0%	66.0%	66.0%
Leverage impact	100.1%	100.1%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Interest impact	121.9%	117.1%	114.5%	113.7%	123.4%	113.5%	113.7%	112.9%
RoE	38.7%	25.6%	24.7%	25.9%	23.2%	19.9%	18.2%	17.8%

Source: BofA Merrill Lynch Global Research, Company

Segmental revenue & margin (EBIT) outlook

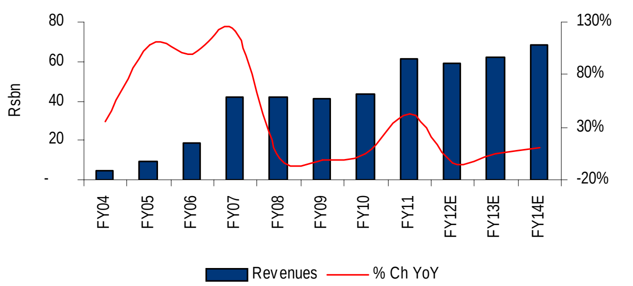
Energy

Revenues dip into order book as order inflows dry up in FY12

Execution of Torrent Power and KAHRAAMA orders to drive revenues FY12-14

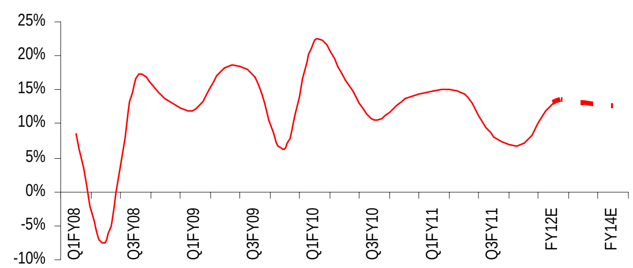
Energy segment has been a beneficiary of mega orders which allows its revenues to shift to a higher growth trajectory. Barring FY09, the company has received a mega order every year since FY05. For FY12, we build in a 10% YoY decline in order inflows as we expect the company to depend on base orders as prospects for large orders are few. Hence, revenues will depend on execution of KAHRAAMA (Rs25bn substation in FY10) and Torrent Power orders (Rs15bn, eBoP +Aux for 1600MW GT, FY10-11) in addition to the base orders (up 11% in FY11) will aid 7% CAGR in segment revenues in FY12-14.

Chart 30: Energy segment revenues buoyed by mega order execution



Source: BofA Merrill Lynch Global Research, Company

Chart 31: Energy segment margins impacted by provisioning & forex



Source: BofA Merrill Lynch Global Research, Company

Margins still not reflective of competitive scenario

Energy segment margins in FY11 have been impacted by provisioning and Fx and do not reflect core operating profitability

We believe that energy segment margins include the impact of provisions/write-backs and forex gain/losses and hence are not reflective of the core operating profitability. Its FY11 segment margin of 11.5% against 16.3% in FY10 includes the impact of foreign exchange loss of Rs1.6bn in 4Q FY11 and also provision of about Rs3.5-4bn on mega orders.

We build in flat segment margins of 13% FY12-14 to incorporate lower margins in large orders, competition in domestic T&D

In FY12-14, we build in flat margins of 13% to reflect our view on increasing competitive intensity in the domestic power T&D segment and also building possibility of write backs on timely execution of mega orders. With new factories for power transformers and wind turbines expected to come on stream in FY13-14, margins are likely to be under pressure as capacity is built out ahead of demand.

Industry

Global sourcing by group and continued growth in short-cycle products will drive 15% CAGR revenues in FY12-14

Industry segment to benefit from continued demand for short cycle products (26% of rev) and launch of new SMART products

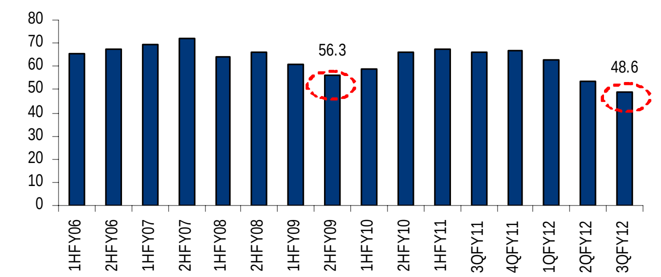
Industry segment revenues in FY11 benefitted from demand for energy-efficiency products driving sales of short-cycle products. Short-cycle industrial products contributed 26% of revenues, up 38% YoY, in FY11. However, the slowdown in industrial green-field capex and delays in railway orders impacted project revenues in this segment.

We expect project revenues to continue to be impacted in FY12. However, we believe that the launch of its SMART (entry-level) products (10% of FY11 order inflows) will be a key driver of growth for this segment.

Demand for short cycle products supported by move to energy efficiency and R&M cycle as fresh capex lags.

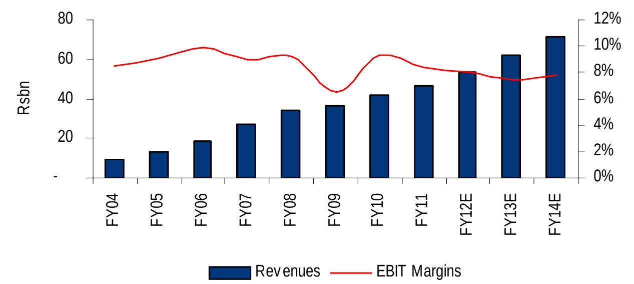
Factories for mid-voltage GIS, Ring Main Units and Power relay systems are expected to be commissioned in 1Q FY12. These new factories will benefit from demand by global operations of Siemens as they will be used as global sourcing hubs. We build in a 15% CAGR in industrial segment revenues in FY12-14, higher than the 11% in FY08-11.

Chart 32: Business confidence levels below FY09 lows



Source: CII

Chart 33: Growth in short-cycle products offsets slower project business, but entails lower margins



Source: BofA Merrill Lynch Global Research, Company

Margins to decline as investments and competition increase

FY11 segment margins declined about 90bp YoY to 8.4% despite a robust 38% growth in products and flat project revenues. We believe this is on account of the launch of new low-cost products. Management mentioned that it introduced 10 new products under the SMART strategy in FY11. We assume most of them were in the industry segment and as a result, margins were lower.

Margins of industry segment to contract to 7.5% FY13 against 8.4% in FY11 mainly on lower margins for SMART products and overheads on new factories

For FY12-14, we expect continued pressure on margins as 1) new products are launched, resulting in entry pricing b) new factories for GIS, RMU, relays (FY12) and motors (FY13) are commercialized c) there is pressure on projects business due to lack of new order inflows and d) due to increasing competition from players such as Crompton Greaves as it enters the LV/MV motors and drives segments which until now was dominated by MNCs. We build in 7.5-8% margins for this segment in FY12-14.

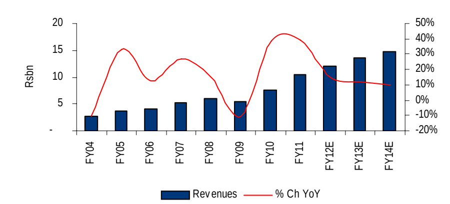
Healthcare

Benefits from renewed focus

Over the past two years, the healthcare division has gained from renewed focus in launching low-cost products. With the amalgamation of Siemens Healthcare Diagnostics (SHDL), we expect this segment to continue to benefit from entry into newer segments. FY09-11 revenues have doubled, though we do not expect the same pace of growth. We build in 11% CAGR in revenues for FY12-14.

Margins should improve as transfer pricing issues with SHDL are sorted out and investments in low-cost products factory bear fruit.

Chart 34: Healthcare segment on a new growth trajectory



Source: BofA Merrill Lynch Global Research, Company

Key assumptions

Table 13: Key segmental assumptions

Rsmn	FY11A	FY12E	FY13E	FY14E
Energy:				
Order inflows	58,161	46,529	48,855	53,741
% Ch YoY	*-23%*	*-20%*	*5%*	*10%*
Revenues	61,434	58,977	61,925	68,118
% Ch YoY	*42%*	*-4%*	*5%*	*10%*
EBIT	7,098	7,667	8,050	8,515
EBIT Margin	*11.6%*	*13.0%*	*13.0%*	*12.5%*
Industry:				
Order inflows	52,900	59,248	68,135	74,949
% Ch YoY	*34%*	*12%*	*15%*	*10%*
Revenues	46,901	53,936	62,027	71,331
% Ch YoY	*12%*	*15%*	*15%*	*15%*
EBIT	3,934	4,315	4,652	5,528
EBIT Margin	*8.4%*	*8.0%*	*7.5%*	*7.8%*
Healthcare:				
Order inflows	11,200	12,880	14,168	15,585
% Ch YoY	*42%*	*15%*	*10%*	*10%*
Revenues	10,479	12,051	13,497	14,847
% Ch YoY	*39%*	*15%*	*12%*	*10%*
EBIT	516	603	810	891
EBIT Margin	*4.9%*	*5.0%*	*6.0%*	*6.0%*

Source: Company, BofA Merrill Lynch Global Research

Table 14: Siemens: Income statement

Rsmn	FY11A	FY12E	FY13E	FY14E
Net Revenues	119,419	122,980	135,243	151,740
% Ch YoY	*28%*	*3%*	*10%*	*12%*
Raw material	90,267	92,604	100,080	112,743
% of revenues	*76%*	*75%*	*74%*	*74%*
Other Exp	17,301	17,709	21,706	23,975
% of revenues	*14%*	*14%*	*16%*	*16%*
EBITDA	11,851	12,667	13,457	15,022
EBITDA Margin	*9.9%*	*10.3%*	*10.0%*	*9.9%*
Depreciation	1,522	1,798	2,091	2,299
EBIT	10,329	10,869	11,365	12,723
Interest income	755	622	705	792
Other income	1,666	848	848	848
PBT	12,750	12,339	12,918	14,364
Tax	4,295	4,195	4,392	4,884
ETR	*33.7%*	*34.0%*	*34.0%*	*34.0%*
Reported PAT	8,454	8,144	8,526	9,480
% Ch YoY	*2%*	*-4%*	*5%*	*11%*
EPS (Rs)	24.8	23.9	25.1	27.9

Source: Company, BofA Merrill Lynch Global Research

Table 15: Siemens: Balance Sheet

Rsmn	FY11A	FY12E	FY13E	FY14E
Equity Share Capital	681	681	681	681
Reserves & Surplus	37,481	43,136	49,075	55,967
Shareholders Funds	38,162	43,817	49,755	56,648
Total Debt	-	-	-	-
Capital Employed	38,162	43,817	49,755	56,648
Gross Block	19,983	24,972	27,972	30,972
Less : Accumulated Depreciation	8,289	10,087	12,179	14,478
Net Block	11,694	14,885	15,794	16,495
Deferred Tax Assets	1,889	1,889	1,889	1,889
Investments	0	0	0	0
Inventories	16,961	18,476	19,927	22,056
Sundry Debtors	41,733	43,024	45,429	48,867
Cash and Bank	12,750	15,628	23,164	29,547
Loans and Advances	14,060	15,415	16,550	18,080
Total Current Assets	85,505	92,543	105,071	118,550
Accounts Payable	28,342	38,560	41,594	46,082
Advances from customers	17,010	9,541	13,176	14,487
Other Current Liabilities	25	25	25	25
Provisions	18,039	17,375	18,204	19,691
Total Current Liabilities	63,415	65,499	72,998	80,286
Net Current Assets	22,090	27,043	32,073	38,264
Capital Deployed	35,673	43,817	49,755	56,648

Source: Company, BofA Merrill Lynch Global Research

Table 16: Siemens: Cash Flow

Rsmn	FY11A	FY12E	FY13E	FY14E
PBT before EO	12,750	12,339	12,918	14,364
Depreciation	1,522	1,798	2,091	2,299
Interest	(883)	-	-	-
Change in working capital	(7,707)	(2,076)	2,507	192
Taxes paid	(5,319)	(4,195)	(4,392)	(4,884)
Others	(256)	-	-	-
Cash Flow from Operations	107	7,866	13,124	11,971
Capex	(3,983)	(2,500)	(3,000)	(3,000)
(Inc)/Dec in investments	186	-	-	-
Others	5,768			
Cash Flow from Investing Activities	1,971	(2,500)	(3,000)	(3,000)
Inc/(Dec) in debt	(2)	-	-	-
Dividend+Tax	(1,961)	(2,488)	(2,588)	(2,588)
Others	-	-	-	-
Cash Flow from Financing Activities	(1,963)	(2,488)	(2,588)	(2,588)
Net Change in Cash Balance	115	2,878	7,536	6,383
Opening Cash Balance	12,635	12,750	15,628	23,164
Closing Cash Balance	12,750	15,628	23,164	29,547

Source: Company, BofA Merrill Lynch Global Research

Table 17: Siemens: Key Ratios and Valuations

	FY11A	FY12E	FY13E	FY14E
CMP (Rs)	745	745	745	745
Shares O/s (mn)	340	340	340	340
Market cap (Rsmn)	253,452	253,452	253,452	253,452
EPS (Rs)	24.8	23.9	25.1	27.9
EPS Growth %	9%	-4%	5%	11%
P/E (x)	30.0	31.1	29.7	26.7
CEPS (Rs)	29.3	29.2	31.2	34.6
BVPS (Rs)	112.1	128.8	146.2	166.5
P/BV (x)	6.6	5.8	5.1	4.5
DPS (Rs)	6.00	6.25	6.50	6.50
Dividend Yield (%)	0.8%	0.8%	0.9%	0.9%
EV/EBITDA (x)	20.3	18.8	17.1	14.9
Inventory days	60	63	62	61
Accounts Receivable days	124	125	120	115
Payable days	160	165	171	168
RoE (%)	23.2	19.9	18.2	17.8
ROCE (%)	20.4	18.5	17.0	16.8

Source: BofA Merrill Lynch Global Research, Company

Peer comparision

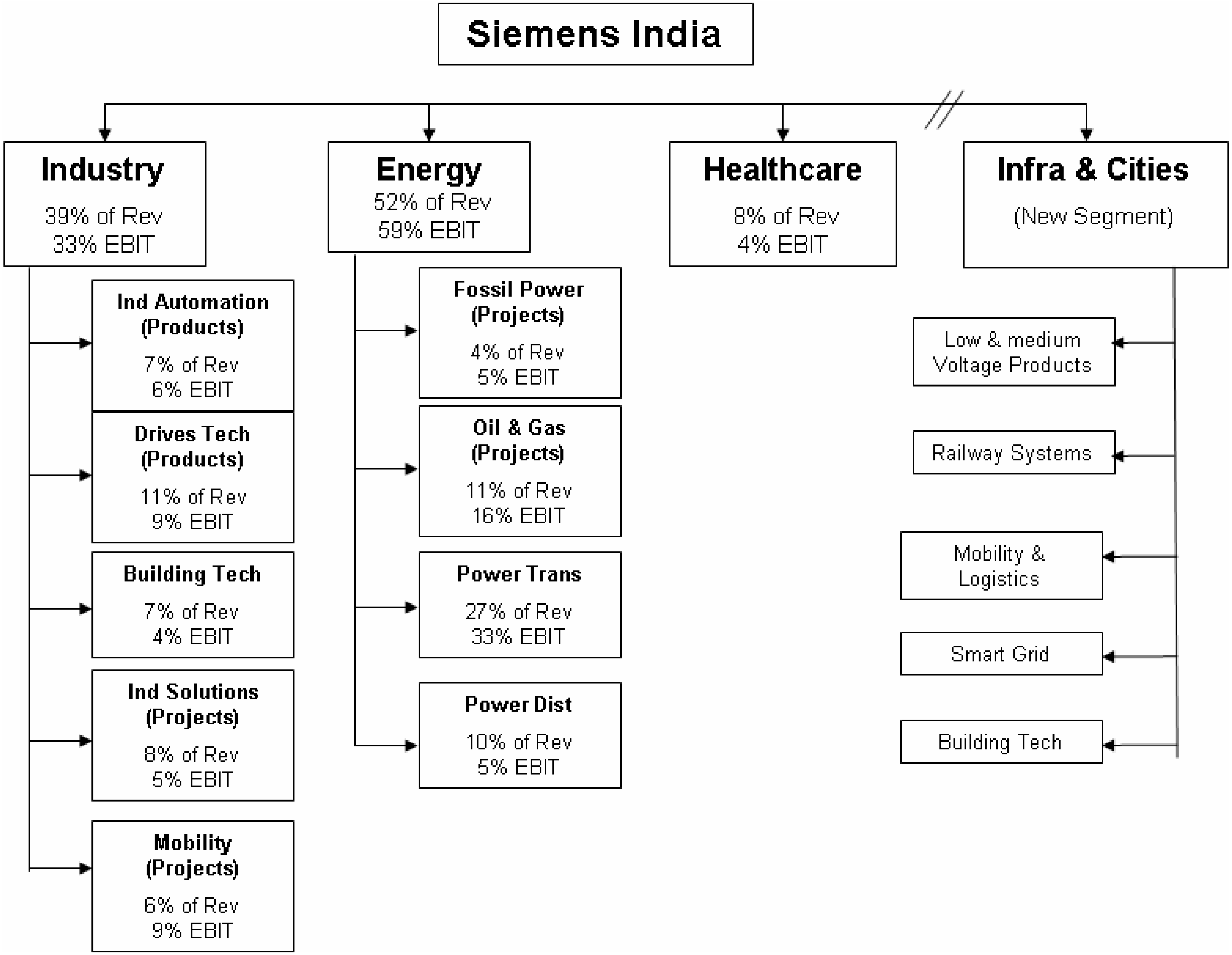
Table 18: Peer comparision

Region	Company	BofAML Ticker	BofAML Rating	CMP	Currency	Mkt Cap	P/E (x)			P/B (x)			RoE (%)		
				Local curr		US$ mn	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E
India	ABB Ltd	ABVFF	UNDERPERFORM	799.6	INR	3,381	133.8	62.0	35.7	7.0	6.5	5.6	10.9	16.9	18.7
	Areva T&D	NA	NA	178.1	INR	850	22.4	17.5	16.6	3.7	3.7	3.2	18.8	20.1	17.9
	Crompton Greaves	CPGZF	UNDERPERFORM	142.4	INR	1,822	15.3	12.8	9.8	2.5	2.2	1.9	17.2	18.0	20.4
	Larsen & Toubro	LTOUF	NEUTRAL	1,330.7	INR	16,246	16.8	14.9	12.7	2.9	2.5	2.2	18.4	18.0	18.4
	Siemens Ltd	SMNBF	UNDERPERFORM	752.6	INR	5,111	31.4	30.0	27.0	5.8	5.1	4.5	19.9	18.2	17.8
	Voltas	VTSJF	UNDERPERFORM	97.3	INR	642	14.5	12.8	11.9	1.9	1.7	1.6	14.7	14.3	14.0
	Cummins	CUIDF	UNDERPERFORM	418.9	INR	2,317	21.8	18.3	16.2	5.7	5.1	4.5	27.8	29.3	29.5
	Havells	HVLIF	BUY	432.4	INR	1,076	14.7	12.0	10.4	5.6	4.0	3.0	45.3	38.7	32.9
	Indian avg						30.1	20.0	15.6	3.9	3.4	2.9	19.2	19.3	18.8
European															
	ABB	ABLZF	BUY	19.6	USD	44,972	13.9	13.3	12.2	2.8	2.5	2.3	20.7	19.7	19.5
	Siemens AG	SMAWF	NEUTRAL	73.5	EUR	64,429	9.4	12.5	11.7	2.0	1.9	1.8	20.5	16.5	16.5
	Schneider Electric	SBGSF	BUY	49.3	EUR	26,873	14.9	15.3	13.3	1.7	1.6	1.5	13.9	12.6	13.6
	European avg						12.7	13.7	12.4	2.2	2.0	1.9	18.4	16.3	16.5

Source: BofA Merrill Lynch Global Research; Bloomberg

Appendix-I

Exhibit 2: Siemens India Revenue and EBIT contribution by segment (FY11)



Source: Company, BofA Merrill Lynch Global Research

Price objective basis & risk
Siemens India (SMNBF)

Our Price Objective is based on a target PE of 25x on our March 2013 earnings estimates. Our target multiple is at a 20% discount to its 3-year average of 31x. We believe this discount is appropriate in view of lower earnings growth, margins and RoE's. Upside risks to our price objective are faster than estimated reversal in capex, and higher than estimated margins for the company's SMART products.

Link to Definitions
Industrials

Click here for definitions of commonly used terms.

Analyst Certification

I, Jonas Bhutta, hereby certify that the views expressed in this research 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 recommendations or view expressed in this research report.

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Tel : +91 22 6632 8000

India - Engineering/Construction/Utilities Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Adani Power Ltd.	XADPF	ADANI IN	Bharat Parekh
	Essar Ports	ESHPF	ESRS IN	Deepak Agrawala
	Gujarat State Petronet Ltd	GJRSF	GUJS IN	Vidyadhar Ginde
	GVK Power & Infrastructure Ltd.	GVPWF	GVKP IN	Deepak Agrawala
	IL&FS Transportation Networks Ltd	XTPSF	ILFT IN	Deepak Agrawala
	IRB Infrastructure Developers Ltd.	XIRBF	IRB IN	Deepak Agrawala
	IVRCL Infrastruc	IIFRF	IVRC IN	Bharat Parekh
	Jaiprakash Associates Limited	JPRKF	JPA IN	Bharat Parekh
	Jaiprakash Power Ventures Ltd.	XJSHF	JPVL IN	Bharat Parekh
	Lanco Infratech Ltd.	LNIFF	LANCI IN	Deepak Agrawala
	Nagarjuna Const	NGRJF	NJCC IN	Bharat Parekh
	NCC-GDR	XAKUF	NJGR LX	Bharat Parekh
	Reliance Infrastructure	RCTDF	RELI IN	Bharat Parekh
	Suzlon Energy	XZULF	SUEL IN	Bharat Parekh
NEUTRAL				
	Adani Enterprises Ltd.	ANIEF	ADE IN	Bharat Parekh
	Adani Ports SEZ	XMANF	ADSEZ IN	Bharat Parekh
	Gujarat Inds	GUJIF	GIP IN	Bharat Parekh
	Larsen & Toub -G	LTORF	LTOD LI	Bharat Parekh
	Larsen & Toubro	LTOUF	LT IN	Bharat Parekh
	Tata Pwr. Co.	XTAWF	TPWR IN	Bharat Parekh
UNDERPERFORM				
	ABB	ABVFF	ABB IN	Bharat Parekh
	Crompton Greaves	CPGZF	CRG IN	Jonas Bhutta
	Gail India	XGLAF	GAIL IN	Vidyadhar Ginde
	Gail Limited - G	GAILF	GAID LI	Vidyadhar Ginde
	GMR Infrastructure Ltd.	GMRLF	GMRI IN	Deepak Agrawala
	Neyveli Lignite	NEYVF	NLC IN	Bharat Parekh
	NTPC Ltd	NTHPF	NTPC IN	Bharat Parekh
	Siemens India	SMNBF	SIEM IN	Jonas Bhutta
RSTR				
	Bharat Heavy	BHHEF	BHEL IN	Bharat Parekh

iQmethod SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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Investment Rating Distribution: Industrials/Multi-Industry Group (as of 01 Jan 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	52	61.90%	Buy	38	86.36%
Neutral	20	23.81%	Neutral	14	82.35%
Sell	12	14.29%	Sell	9	81.82%

Investment Rating Distribution: Global Group (as of 01 Jan 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2029	52.00%	Buy	1337	72.11%
Neutral	1009	25.86%	Neutral	657	71.34%
Sell	864	22.14%	Sell	487	60.20%

* Companies in respect of which BofA Merrill Lynch or one of its affiliates has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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