

INITIATING COVERAGE

Share Data

| | |
|-----------------------|------------------|
| Market Cap | Rs. 237.02 bn |
| Price | Rs. 1405.95 |
| BSE Sensex | 14964.12 |
| Reuters | SIEM.BO |
| Bloomberg | SIEM IN |
| Avg. Volume (52 Week) | 0.17 mn |
| 52-Week High/Low | Rs. 1411.6/820.9 |
| Shares Outstanding | 168.58 mn |

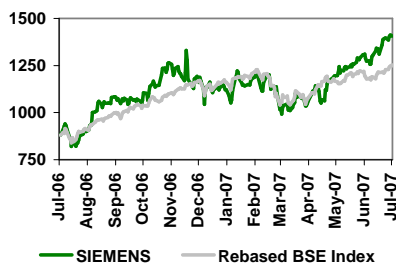
Valuation Ratios

| Year to 30 Sept | 2007E | 2008E |
|-----------------|-------|-------|
| EPS (Rs.) | 36.6 | 46.5 |
| +/- (%) | 55.4% | 26.9% |
| PER (x) | 38.4x | 30.3x |
| EV/ Sales (x) | 2.2x | 1.7x |
| EV/ EBITDA (x) | 21.1x | 16.6x |

Shareholding Pattern (%)

| | |
|-----------------|----|
| Promoters | 55 |
| FII's | 9 |
| Institutions | 18 |
| Public & Others | 18 |

Relative Performance



Siemens India Limited

HOLD

Restructuring continues

Siemens India Limited (SIEM) the flagship of the Siemens Group in India operates in diversified segments of the Indian economy ranging from manufacturing, power, transport, healthcare, and communication to IT. Amongst the recent restructuring initiatives which we believe are value accretive, include the recently acquired 77% stake in iMetrex Technologies Ltd. which along with the existing building technologies business would form a new entity.

Although the company has witnessed strong growth in revenues and order intake, margins have shrunk. The stock is re-valued following the recent run in the power sector stocks. We believe the stock is fairly valued and initiate the coverage with a Hold rating.

Key Figures

| Year to September | FY04 | FY05 | FY06 | FY07E | FY08E | CAGR (%) |
|--|--------|--------|--------|---------|---------|----------|
| (Figures in Rs mn, except per share data) (FY06-08E) | | | | | | |
| Net Sales | 22,159 | 35,938 | 59,816 | 102,961 | 128,567 | 46.6% |
| EBITDA | 2,817 | 4,628 | 6,386 | 10,605 | 13,500 | 45.4% |
| Net Profit | 1,644 | 2,943 | 3,835 | 6,171 | 7,831 | |
| Margins(%) | | | | | | |
| EBITDA | 12.7% | 12.9% | 10.7% | 10.3% | 10.5% | |
| NPM | 7.4% | 8.2% | 6.4% | 6.0% | 6.1% | |
| Per Share Data (Rs.) | | | | | | |
| Normalized EPS | 10.2 | 18.6 | 23.6 | 36.6 | 46.5 | 40.4% |
| PER (x) | 137.5x | 75.4x | 59.7x | 38.4x | 30.3x | |
| CEPS | 12.8 | 21.9 | 30.2 | 47.6 | 59.4 | |
| P/CEPS (x) | 109.9x | 64.2x | 46.5x | 29.5x | 23.7x | |

- Given the improved order backlog we estimate revenues to grow at a FY06-08E CAGR of 46.6%. However, EBITDA margins are expected to contract as the revenue mix of the company changes to lower margin project business.
- Currently, the stock is trading at a forward P/E of 38.4x for 2007E and 30.3x for 2008E. We believe the stock is fairly valued and expect modest upside growth from the current levels. We initiate coverage of SIEM with a Hold rating.

Rationale

Improved order book position of Rs. 109 bn at March 07 end

Growing order intake

Siemens' standalone order book position increased to Rs. 108.8 bn, up 41% from year end Sep 06 position. Assuming a quarterly run rate of Rs. 20-23 bn, the order book position translates to about five quarters of revenues.

Siemens is expected to dominate the T&D equipment market

Growth in power segment

The power segment revenues in 1H'FY07 contributed over 55% of total revenues and registered a 164% growth y-o-y, driven by strong order book position. Given the increased emphasis on power reforms, the domestic market is witnessing strong growth in the power sector. As none of the Indian companies have the scale to manage large transmission projects, apart from ABB and Siemens, we expect Siemens to dominate the higher-end T&D equipment market.

Restructuring to positively impact operations

Restructuring of business

Siemens recently announced that it will acquire a 77% stake in iMetrex Technologies Limited. iMetrex provides products and solutions in electronic security, safety and building automation systems business segments and has operations in Ireland, UK, Singapore and Hong Kong, besides India. The board has also approved the integration of Siemens' building technologies business into the newly acquired company, under a separate entity, thus consolidating its Building Technologies business.

In addition, the company announced the sale and transfer of the low margin 'Automotive' division to a 100% subsidiary of the parent company, Siemens AG, Germany. We believe that these restructuring initiatives should be viewed positively as the company attempts to improve operations through strategic take-overs and non-core business hive-offs.

Strong revenue increase at the cost of margins

The company is expected to generate strong revenues in the coming five to six quarters driven by healthy order book position. However, the company is expected to witness slight decrease in margins due to change in revenue mix in the power segment. Previously, the significant part of the company's

Revenue mix is changing to lower margin project business

revenues was attributable to products business i.e. power equipments where margins range between 9-10%. Of late, the company has entered into project related business which is more of an EPC contract, where margins tend to be low.

Key Risks

Macroeconomic factors

Any derailment of power sector reforms and deterioration in financial health of SEB's would be a cause for concern.

Margin pressure

Any unprecedented rise in prices of primary raw materials and further change in revenue mix towards lower margin business could impact margins. Further, given the company's improving exports to Middle East any sharp appreciation in rupee could also result in erosion of margins.

Divestiture of profitable business: a cause for concern

Divestiture of profitable business

In the process of restructuring, SIEM has sold some its return lucrative business in the past. Any such hive-off of profit making business would not only result in declining revenues but could also lead to further contraction in margins.

Outlook

We expect SIEM to report steady growth in the coming years owing to its diversified exposure in the Indian manufacturing industry, power, transport, healthcare, communication and IT segments.

The Power division is expected to contribute the major chunk of revenue for years to come: 1) Owing to the company's competency in the sector 2) Expected boom in Indian Infrastructure.

In addition, against the current backdrop of the high oil prices the economy in the Middle East is also experiencing an infrastructure boom. The Qatar transmission order procured by SIEM is the tip of the iceberg given the immense growth potential.

SIEM to ride on infrastructure boom

The other driver for the company is the automation and industrial services business, riding on the capex cycle in steel, oil and gas, cement, and petrochemicals sectors.

Similarly, in the domestic markets, modernization of airport, metro and railway signalling and electrification apart from T&D and automation, would offer SIEM with new opportunities.

However, margins have contracted and are expected to remain constrained. We believe the stock is fairly valued and initiate the coverage with a Hold rating.

Company Background

Siemens India Limited is a publicly owned company with almost 55% of equity being held by the Siemens Group. The company's portfolio consists of products, systems, solutions and services in power generation, power transmission & distribution, automation & drives, industrial solutions & services, transportation systems, enterprise communications, mobile phones and medical solutions. Siemens in India as a Group is constituted of 15 companies, 17 manufacturing plants and a wide network of Sales and Service offices across the country, providing employment to over 15,000 persons.

Company with wide geographic presence and diversified product portfolio

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