IL&FS INVESTSMART

Institutional Equity

Power equipment

Siemens

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Shareholding (%)

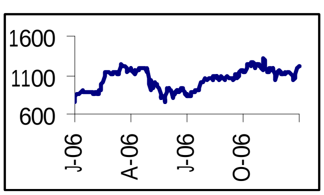
Foreign Promoters	*55.2*
FII's	*11.5*
MFs	*7.7*
Insurance Co.	*6.5*
Others	*19.1*

Share price performance

52-week high/low (Rs)	1407/712		
	-1m	-3m	-12m
Abs (%)	7.5	7.0	63.5
Rel* (%)	0.2	-4.7	20.1

*to Nifty

Stock chart



Our key takeaways from Siemens India's AGM are:

- **Expansion with new three factories**. Siemens is setting up three new factories, one and Baroda and two at Kalwa, by incurring a capex of Rs3.5 bn. The factory at Baroda will manufacture industrial turbines and the two factories at Kalwa will produce transformers and traction motors. The company sees immense export potential in the isolators business that was acquired from Elpro International and likely to go for expansion in the same .In the medium term, Siemens India is likely to continue on its expansion spree to enhance its production capacities across all the product segments.

- **Middle East and Asia- New Growth Areas**: Encouraged by the recent orders from Qatar, Siemens India is increasingly targeting Middle East and Asian countries for transmission and distribution network orders. The company enjoys a distinct advantage while bidding in a consortium with parent, Siemens AG. The company is likely to bid for more projects in Gulf countries, going forward. Siemens India intends to become a global sourcing hub for its parent. This is reflected in the company's exports that increased from Rs6.44 bn in Q1FY07 to Rs10.55 bn in FY2006. Going forward, higher outsourcing from the parent company is likely to support the growth in exports that are expected to grow significantly.

- **Substantial growth in high-voltage turnkey projects anticipated:** Siemens India expects substantial growth in high-voltage turnkey projects, especially from Powergrid Corporation of India in the domestic market and other government bodies in the international market. Currently, it is in dialogue with one of ultra-mega power plant winner for supplying equipment. As on December 31, 2006, the company had an unexecuted order book of Rs110 bn. On an average, these orders are expected to be executed in next 15-18 months.

- **Enhancing product portfolio and distribution reach**: Siemens India is consistently expanding its product portfolio; the company has introduced several new products especially in high-voltage segments with technological support from Siemens AG. In domestic market it introduced 400 KV circuit breakers and

Not Rated

Rs1215

19 January 2007

Market cap
Rs bn 205
US$ bn 5

Avg 3m daily volume
1,226,316

Avg 3m daily value
USD mn 32

Shares outstanding (mn)
169

Reuters
SIEM.BO/SIEMENS.NS

Bloomberg
SIEM IN

Sensex
14,218

Nifty
4,109

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indigenously developed air insulated switchgears; these switchgears are considered as one of the top five innovations by Siemens globally. Going forward, Siemens India is likely to introduce and develop new products suited to Indian markets. It believes that small cities and towns in the country offer significant growth opportunities for its business, going forward.

- **Divesting SPCNL-** Siemens India is divesting its stake in Siemens Public Communication Network Pvt. Ltd (SPCNL). It is merging this entity into Nokia Siemens Networks, a 50-50 joint venture with the Nokia Networks business group. This process is likely to be completed by March 2007. Siemens India stated that as a subsidiary of a large multinational, it is compelled to enter and exit various business segments according to parent company's strategy.
- **Eyeing acquisitions**: In FY2006, Siemens India acquired the isolator business of Elpro International and a majority stake in Flender Ltd, a Kolkata-based manufacturer of industrial gear boxes. The company is now eyeing more acquisitions in the domestic space for broadening its product portfolio by taking over readymade capacities.
- **Restructuring employee cost:** Recently, Siemens India restructured its employee salaries so as to retain quality manpower. Nevertheless, the company's attrition rate for the last FY2006 years was 11%, marginally higher for a manufacturing company. Moreover, Siemens India's other expenses are likely to go up, as it expands its presence in the international market.

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Q1FY07 Result Update

Kick starts into FY07; power, industrial solutions and infrastructure – the key growth drivers

For Q1FY07, Siemens India reported a phenomenal growth of 91% in net sales and 100% growth in net profits. The mega-deal from Qatar aided the growth in the power division. Moreover, the upswing in industrial capex in the domestic market facilitated strong volume growth in the automation and the industrial solutions division. Rising raw material prices, however, affected EBITDA margins that dropped by 239 bps, from 10.3% in Q1FY06 to7.9% in Q1FY07. Going forward, Siemens India expects the pressure on its margins to ease. From a medium-term perspective, the company would scout for mega-deals in the power, infrastructure, and industrial solutions space, with the support of its parent company; this would ensure a sustainable growth over the long-term. At the end Q1FY07, the company's unexecuted order book position stood at Rs110bn.

- **Kick-starts into FY07:** Siemens India reported excellent numbers for Q1FY07, with a 91% growth in topline to Rs16.27bn, and a 100% growth in PAT to Rs980 mn. This growth was driven by segments such as power, industrial solutions, automation, and drivers. The power division grew by an outstanding 182% during Q1FY07, constituting about 60% of the company's total revenues during the quarter. The industrial automation and solutions business grew by 71%, forming 10% of the company's revenues during the quarter.

- **Significant margin compression:** Siemens India's EBITDA margins dropped by 239 bps, from 10.3% in Q1FY06 to 7.9% in Q1FY07, due to rising raw material prices. The projects division contributed 27% of the company's total revenues in current quarter compared with 7% in the corresponding quarter last year. Several bought out components are utilised in projects. The company had to pass on the hike in raw material prices to suppliers of these components, but could not get similar benefit from its clients, especially in the export markets. This is one of the reason which pressurized EBITDA margins further. Net margins, however, dropped only by 40 bps due to higher other income enhanced by a cash surplus of over Rs10 bn.

- **Additions to the order book set the stage for strong growth over the medium term:** Siemens India added new orders worth Rs51.27bn during Q1FY07 as against Rs41.62bn during the corresponding period of FY06. This has taken the company's unexecuted order book position to Rs110.4bn as on December 31, 2006, a growth of 56% over the previous year. This strong growth was driven by a mega-deal in Qatar secured by the consortium of Siemens India and Siemens AG, Germany. The Rs40bn deal involves development of a transmission grid and the design and supply of high-voltage automatic

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substation in Qatar. This contract, also the largest ever for Siemens India, is a repeat order from the Qatar General Electricity and Water Corporation.

- **Eyeing mega-deals in power, infrastructure, and industrial solutions for sustainable growth**: Going forward, Siemens India would focus on securing mega opportunities in the:
  - Infrastructure segment – Providing complete infrastructure solutions for mega cities (airports and road networks)
  - Power segment – Tapping huge investments in the power generation and transmission and distribution segments in domestic markets and export markets such as Middle East and Africa.
  - Manufacturing sector – Capturing the growth in industrial capex in an endeavor to improve industrial productivity in the domestic markets by providing complete customised solutions for industrial processes.

  The role played by Siemens AG, Germany, in securing the mega power deal in Qatar, reinforces our confidence in the parent company in providing timely operational support to Siemens India.

- **Valuations:** On a standalone basis, the stock is trading at P/E multiple of 50x on TTM earnings. This high P/E multiple reflects Siemens India's strong anticipated growth, higher revenue visibility (2.5xFY06 order book), robust balance sheet with debt-free status, and cash surplus of over Rs10 bn. We have a positive view on the company.

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Table 1. Quarterly result table

	Q1FY07	Q1FY06	YoY (%)	Q4FY06	QoQ (%)
Net sales	16269	8511	91%	14919	9%
Other opearing income	62	90	-31%	76.79	-20%
(Increase)/Decrease in Stock in Trade	-63	-31	100%	196.19	-132%
(Increase)/Decrease in project related work in progress	-1369	-840	63%	142.17	-1063%
Consumption of Raw Materials	14696	7040	109%	10855.71	35%
Personnel Cost	850	538	58%	936.55	-9%
Other Costs	984	1104	-11%	1621.51	-39%
Total cost	15100	7810	93%	13752	10%
EBITDA	1231	791	56%	1244	-1%
Depreciation	103	150	-31%	122.12	-16%
EBIT	1129	641	76%	1122	1%
Interest	-126	-54	132%	-116.14	9%
Other Income	152	9	1545%	636.73	-76%
PBT	1406	705	100%	1874	-25%
Tax	426	215	98%	508	-16%
Current	442	226	96%	562.09	-21%
deferred	-41	-28	47%	-74.09	-45%
fringe	25	17	49%	19.68	27%
PAT	981	490	100%	1367	-28%
EPS	6	3		8	
EBITDA Margins	7.9%	10.3%	-2.4%	8.9%	
EBIT Margins	7.3%	8.6%	-1.3%	8.0%	
PBT Margins	9.0%	9.3%	-0.3%	13.1%	
PAT margins	6.4%	6.8%	-0.4%	9.7%	
Tax Rate	30%	30%		27%	

Source: IISL research, company

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