



Siemens India

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,027	SIEM IN
	REUTERS CODE
S&P CNX: 2,752	SIEM.BO

26 November 2008

Neutral

Previous Recommendation: Neutral

Rs224

Equity Shares (m)	337.2
52-Week Range	1,125/210
1,6,12 Rel. Perf. (%)	-19/-17/-24
M.Cap. (Rs b)	75.4
M.Cap. (US\$ b)	1.5

YEAR	NET SALES	PAT*	EPS*	EPS*	P/E*	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
9/07A	77,660	5,369	15.9	35.1	14.0	4.7	40.1	69.1	0.9	9.5
9/08A	83,582	5,124	15.2	-4.6	14.7	3.6	27.7	44.9	0.8	8.4
9/09E	83,568	6,134	18.2	19.7	12.3	2.9	26.1	39.5	0.7	6.7

* Consolidated

SISL's performance, goodwill write-off negative surprises; expect 0.2% revenue growth in FY09, given high base effect

During FY08, contribution of subsidiaries to consolidated results was Rs64m v/s Rs963m in FY07, given the poor performance of SISL and goodwill write-off (pertaining to acquisition of 77% stake in iMetrex in April 2007). Order backlog stood at Rs98.3b, down 11% from the level reported at the end of 1QFY07, which will impact revenue growth in FY09 / FY10. We expect Siemens to report revenues of Rs83b in FY09 (up 0.2%) and Rs90.8b in FY10 (up 9.3%). The management stated that business outlook is cautious given the uncertain business environment. We maintain **Neutral**.

- ⚡ **Disappointing consolidated performance:** Consolidated results were disappointing, with net profit down 13.5% at Rs6b. % YoY. Adjusted profits were Rs6.2b (up 15%). The decline in profits at SISL is due to the business restructuring at Siemens AG, wherein SISL will now bill on cost-plus basis. PBT margins for SISL have eroded from 22.7% in FY05 to 7.4% in FY08; we expect margins to further decline to 7% in FY09 and 6.7% in FY10.
- ⚡ **Expect 0.2% revenue growth in FY09, given high base effect:** Given the receipt of mega projects in FY05 and FY06, largely from Qatar (Rs63b), export revenues increased from Rs9b in FY06 to Rs25b in FY07 and to Rs26b in FY08. As these projects get executed, we expect the share of exports to decline.
- ⚡ **Downgrade earnings, maintain Neutral:** We expect Siemens India to report consolidated net profit of Rs6.1b in FY09 (up 20%) and Rs6.5b in FY10 (up 6.7%). This is a downgrade of 13% for FY09 and 30% for FY10. The stock trades at 14.7x FY08 and 12.3x FY09E earnings. Maintain **Neutral**, with a revised target price of Rs215.

QUARTERLY PERFORMANCE (STANDALONE)

Y/E SEPTEMBER	(Rs Million)									
	FY07				FY08				FY07	FY08
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Total Revenues	16,331	21,352	17,902	22,055	19,195	21,546	18,204	24,636	77,660	83,582
Change (%)	89.9	88.4	71.1	47.1	17.5	0.9	1.7	11.7	71.1	7.6
EBITDA	1,234	1,677	910	3,575	1,548	152	2,654	3,437	7,415	7,791
Change (%)	56.1	38.2	14.8	187.3	25.4	-90.9	191.7	-3.9	85.2	5.1
As % of Revenues	7.6	7.9	5.1	16.2	8.1	0.7	14.6	13.9	8.2	9.3
Depreciation	103	109	121	160	151	149	161	178	492	639
Interest Income	126	105	123	90	131	54	111	157	443	451
Other Income	152	57	295	370	16	15	16	21	593	67
Extra-ordinary Items	0	0	259	524	1,246	0	0	0	783	1,246
PBT	1,409	1,730	1,207	4,399	2,789	71	2,620	3,436	8,742	8,916
Tax	426	650	389	1,313	819	55	926	1,186	2,777	2,984
Effective Tax Rate (%)	30.2	37.5	32.2	29.8	29.4	76.6	35.3	34.5	31.8	33.5
Reported PAT	984	1,081	818	3,086	1,970	17	1,694	2,250	5,965	5,931
Adjusted PAT	984	1,081	642	1,960	1,090	17	1,694	2,250	4,671	5,051
Change (%)	78.4	-8.3	13.6	43.4	10.8	-98.5	164.0	14.8	27.6	8.1

E: MOSSt Estimates; Nos are for standalone entity

Satyam Agarwal (Agarwals@MotilalOswal.com); Tel: +91 22 3982 5410

Shridatta Bhandwadar (Shridatta.Bhandwadar@MotilalOswal.com) Tel: +91 22 3982 5417

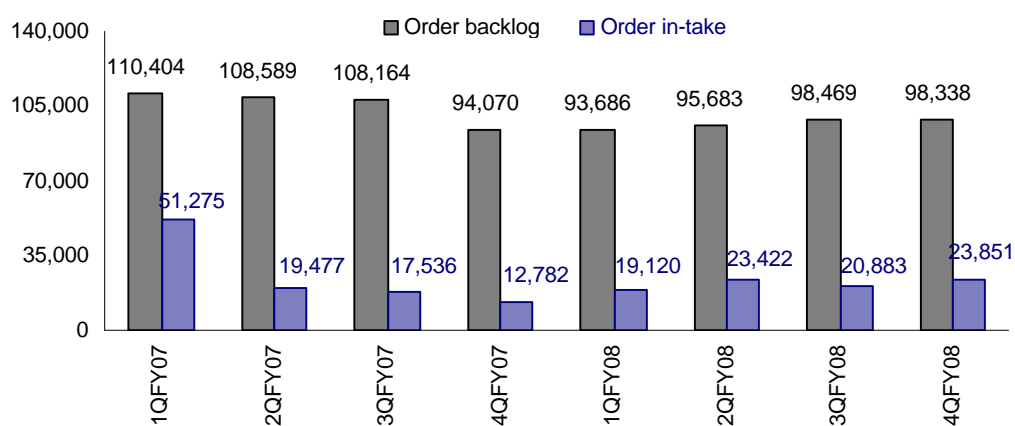
Standalone results for FY08 better than expected

For the year ended September 2008 (FY08), Siemens reported revenues of Rs84b (up 7.6%), EBITDA of Rs7.8b (up 5.1%) and net profit of Rs5.9b (up 8.1%). FY08 numbers include several extraordinary items, comprising of: (1) revenue reversal of Rs1.2b on account of revised cost estimates as per the percentage completion method; (2) provision of Rs551m for estimated losses on large projects; (3) Rs200m from sale of real estate; and (4) capital gain of Rs1.2b on sale of Automotive/Building Technologies. Adjusted profit for the year was Rs6.1b, up 31%. The provisions largely pertain to Torrent Sugden Power and Mumbai Transport Project.

Order backlog down 11% from the level reported at the end of 1QFY07

Order intake during FY08 was Rs87.2b (down 14%), while order backlog at Rs98.3b was down 11% from the level reported at the end of 1QFY07. This is largely because the company had received mega orders, including Rs36b from Qatar in FY07. Also, consolidated order intake during FY08 was Rs102b, down 12%; adjusted for the effect of mega orders, however, it was up 27%.

ORDER BOOK TREND (RS M)



Source: Company/MOSL

ORDER INTAKE (YOY %)

SEGMENT	(%)
Automation and Drives	36
Industrial Solutions	54
Power	-30
Power(Excluding Mega Orders)	25
Total(Excluding Mega Orders)	27
Total(Including Mega Orders)	5

Source: Company/MOSL

BOOK TO BILL RATIO (X)

	1QFY08	2QFY08	3QFY08	4QFY08
Industry	1.2	1.2	1.2	1.3
Energy	1.3	1.3	1.3	1.5
Healthcare	1.0	1.1	1.1	1.1

Source: Company/MOSL

Consolidated results disappoint

Consolidated results were disappointing – net profit declined 13.5% to Rs6b. Adjusted profit was Rs6.2b, up 15%. Subsidiaries contributed Rs64m as compared to Rs963m in FY07, owing to the poor performance of SISL and goodwill write-off (pertaining to acquisition of 77% stake in iMetrex in April 2007). SISL reported revenues of Rs9.9b in FY08 (down 2.9%) and net profit of Rs339m (down 78%). We had expected SISL to report a net profit of Rs1.5b in FY08. The decline in profits is due to the business restructuring at Siemens AG, wherein SISL will now be billed on cost-plus basis. PBT margins for SISL have eroded from 22.7% in FY05 to 7.4% in FY08; we expect margins to further decline to 7% in FY09 and 6.7% in FY10.

SIEMENS: CONSOLIDATED PERFORMANCE (RS M)

	SIEMENS	SISL	SIPS	SBTPL	OTHERS	CONSOLIDATED
Revenues	82,955	9,943	1,071	3,213	-384	96,798
PBT	8,938	733	132	167	-548	9,422
PAT	5,947	339	117	91	-499	5,995

SISL (100% subsidiary): Siemens Information Systems Ltd

SIPS (49% subsidiary): Siemens Information Processing Services Pvt. Ltd

SBTPL(79.3%): Siemens Buildings Technology Private Ltd.

* Includes 500m of annual goodwill write-off for iMetrex

Source: Company/MOSL

TREND IN CONSOLIDATED NET PROFIT (RS M)

	FY07	FY08	FY09E	FY10E
Standalone Business	5,274	5,931	5,856	6,108
SISL	1,521	339	548	686
Others	133	-291	-270	-247
Consolidated Profit	6,928	5,995	6,134	6,547

Source: Company/MOSL

Expect 0.2% revenue growth in FY09, given high base effect

Given the receipt of mega projects in FY05 and FY06, largely from Qatar (Rs63b), export revenues increased from Rs9b in FY06 to Rs25b in FY07 and to Rs26b in FY08. The share of exports increased from 20% of revenues in FY06 to 32% of revenues in FY08. As these projects get executed, we expect the share of exports to decline, which will impact revenues going forward. We expect Siemens to report revenues of Rs83b in FY09, up 0.2% and Rs90.8b in FY10 (up 9.3% YoY).

EXPORT BREAK-UP (RS M)

	FY06	FY07	FY08
Export Turnover	9,000	25,024	26,049
% Revenues	20	32	32
Export break-up			
Power TD	6,908	22,345	23,800
Industrial Solution	763	1,442	751
Other	1,329	1,237	1,498

Source: Company/MOSL

Disclosure standards remain poor

We continue to be disappointed by the disclosure standards at Siemens. The margin erosion in SISL in FY08 due to internal restructuring came as a surprise. Also, acquisition of 77% stake in iMetrex in April 2007 has led to goodwill charge of ~Rs500m in FY08 and a similar amount will be charged till FY12. This was not factored in our estimates.

Cautious outlook

Business sentiment currently is cautious, with slowdown in terms of project announcements, currency movements, etc. The management stated that the Automation and Drives segment is expected to grow at a moderate pace, given the global uncertainties, while the general economy slowdown will impact other business segments. Also, initial feelers from the marketing team indicate a slowdown in terms of project awards.

Downgrading earnings; maintain Neutral

We expect Siemens India to report consolidated net profit of Rs6.1b in FY09 (up 20%) and Rs6.5b in FY10 (up 6.7%). This is a downgrade of 13% for FY09 and 30% for FY10. The stock trades at 14.7x FY08 and 12.3x FY09E earnings. Maintain **Neutral**, with a revised target price of Rs215. We value the core business at Rs208/share (12x FY09E EPS), SISL at Rs10/share (5x FY09E EPS) and other subsidiaries at a negative Rs4/share.

SIEMENS SUM OF THE PARTS (RS/SH)

	METHOD	VALUATION MULTIPLE	VALUE (RS M)	VALUE (RS/SH)	RATIONALE
Standalone Business *	FY09 P/E	12	70,274	208	Discount to ABB, BHEL
SISL	FY09 P/E	5	3,428	10	In line with Tier-II IT companies
Other Subsidiaries	FY09 P/E	5	(1,351)	-4	
Target Price			72,351	215	

* September year end

Source: Motilal Oswal Securities

SEGMENT WISE PERFORMANCE ANALYSIS (RS M)

	FY07				FY08				FY07	FY08	YOY
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			%
Revenues											
Information and communication	352	469	465	184	0	0	0	0	1,470	0	-
Automation & drives	3,164	4,385	3,706	5,301	4,417	5,572	4,752	6,268	16,555	21,008	27
Industrial solutions & services	1,638	2,713	2,369	2,809	2,271	3,053	2,960	3,745	9,529	12,029	26
Power	9,888	11,867	9,823	11,431	10,825	11,375	8,386	11,793	43,008	42,378	-1
Transport	584	796	790	1,298	1,452	1,662	1,501	2,060	3,467	6,675	92
Healthcare & other services	766	1,586	1,199	1,695	1,102	1,355	1,504	2,093	5,247	6,053	15
Building Technologies	248	252	230	290	0	0	0	0	1,020	0	
Real estate	113	125	96	162	133	180	136	196	496	645	30
Automotive	289	282	296	337	231	0	0	0	1,203	231	-81
EBIT											
Information and communication	25	44	37	11	0	0	0	0	116	0	-
Automation & drives	141	362	258	386	269	471	385	667	1,147	1,792	56
Industrial solutions & services	185	291	239	240	258	356	501	427	956	1,541	61
Power	713	698	54	1,134	920	-869	1,401	1,618	2,084	3,070	47
Transport	56	27	70	73	-139	-93	73	-45	226	-205	-190
Healthcare & other services	-66	47	54	79	-6	57	49	233	113	333	194
Building Technologies	12	21	18	42	0	0	0	0	93	0	
Real estate	72	85	72	96	88	81	84	361	325	614	89
Automotive	-1	1	-6	73	8	0	0	0	67	8	-88
EBIT Margin (%)										(BP)	
Information and communication	7.1	9.3	7.9	6.1	-				7.9	-	
Automation & drives	4.4	8.3	7.0	7.3	6.1	8.5	8.1	10.6	6.9	8.5	160
Industrial solutions & services	11.3	10.7	10.1	8.6	11.4	11.7	16.9	11.4	10.0	12.8	279
Power	7.2	5.9	0.5	9.9	8.5	-7.6	16.7	13.7	4.8	7.2	240
Transport	9.5	3.4	8.8	5.6	-9.6	-5.6	4.9	-2.2	6.5	-3.1	-959
Healthcare & other services	-8.7	2.9	4.5	4.6	-0.6	4.2	3.3	11.1	2.2	5.5	334
Building Technologies	4.8	8.2	7.9	14.7	-				9.1	-	
Real estate	64.1	68.1	74.9	59.3	65.8	45.0	61.9	184.5	65.6	95.3	2,961

Source: Company/MOSL

Siemens: an investment profile

Company description

Siemens India is a 55% subsidiary of Siemens AG. The business mix of the company encompasses a play on infrastructure and industrial sectors. In infrastructure, the company provides signaling systems and traction equipment to the railways, healthcare systems and power transmission and distribution systems. In the industrial sector, the company is a strong force in the industrial automation and switchgear systems. SISL, a 100% subsidiary of Siemens India, is engaged in providing IT solutions to Siemens AG, and external clients.

Recent developments

- Siemens AG brought all its IT businesses under the corporate IT business. Thus SISL will now work as a captive unit for Siemens AG and profitability will be much lower than the third party business.
- Siemens has passed the board resolution to buy remaining 50% stake in Flender.

Key investment risks

- Credit crunch and possible slowdown in the industrial capex will impact the Siemens business since it derives almost 50% of business from the industrial segment.

Valuation and view

- The stock trades at 14.7x FY08 and 12.3x FY09E earnings. Maintain **Neutral**, with a revised target price of Rs215.

Sector view

- We have observed some moderation in the capex on both industrial and infrastructure side of business. This along with the tight credit scenario could result in delay in several proposed projects, particularly on the industrial side. This could have significant negative impact on companies like ABB. We remain neutral on the sector.

COMPARATIVE VALUATIONS

		SIEMENS*	ABB#	BHEL
P/E (x)	FY09E	14.7	17.6	18.7
	FY10E	12.3	15.5	14.4
P/BV (x)	FY09E	3.6	4.5	4.8
	FY10E	2.9	3.6	3.8
EV/Sales (x)	FY09E	0.8	1.2	2.2
	FY10E	0.7	1.0	1.8
EV/EBIDTA (x)	FY09E	8.4	10.5	12.8
	FY10E	6.7	8.8	8.5

December Y/E; * September Y/E

SHAREHOLDING PATTERN (%)

	SEP-08	JUN-08	SEP-07
Promoter	55.2	55.2	55.2
Domestic Inst	21.1	20.2	19.3
Foreign	3.5	4.1	8.4
Others	20.2	20.5	17.2

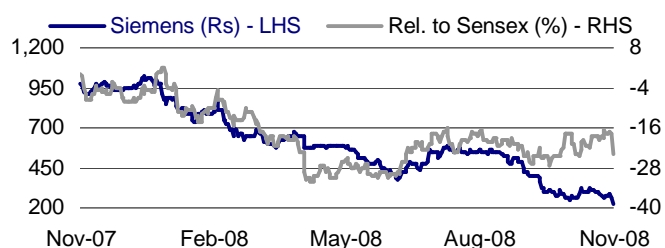
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	17.4	23.6	-26.3
FY10	18.1	28.0	-35.3

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
224	215	-	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(RS MILLION)					
Y/E SEPTEMBER	2006	2007	2008	2009E	2010E
Total Revenues	45,360	77,660	83,582	83,568	91,326
Change (%)	62.9	712	7.6	0.0	9.3
Raw Materials	34,639	62,667	63,628	66,854	73,061
Staff Cost	2,829	4,045	4,478	2,775	3,396
SGA Expenses	3,888	3,534	7,685	4,986	5,448
EBITDA	4,004	7,415	7,791	8,953	9,421
% of Total Revenues	8.8	9.5	9.3	10.7	10.3
Depreciation	442	492	639	709	851
Other Income	1,457	1,036	519	497	546
EO Items (net)	95	783	1,246	0	0
PBT	5,113	8,742	8,916	8,741	9,117
Tax	1,454	2,777	2,984	2,884	3,009
Rate (%)	28.4	31.8	33.5	33.0	33.0
PAT	3,659	5,965	5,931	5,856	6,108
Adjusted PAT	3,592	4,671	5,051	5,856	6,108
Change (%)	45.8	30.0	8.1	5.9	4.3
Consolidated PAT	3,974	6,928	5,995	6,134	6,547
Con. Adjusted PAT	3,974	5,369	5,124	6,134	6,547
Change(%)	31.9	35.1	-4.6	9.7	6.7

BALANCE SHEET					
(RS MILLION)					
Y/E SEPTEMBER	2006	2007	2008	2009E	2010E
Share Capital	337	337	337	337	337
Reserves	10,534	15,572	20,724	25,607	30,548
Net Worth	10,871	15,909	21,062	25,945	30,885
Loans	20	15	40	40	40
Minority Interest	0	0	0	0	0
Net Deferred Tax Liab	-277	-273	-273	-273	-273
Capital Employed	10,614	15,651	20,828	25,711	30,652
Gross Fixed Assets	6,473	8,701	8,723	8,173	8,347
Less: Depreciation	3,852	4,064	4,654	5,363	6,214
Net Fixed Assets	2,621	4,637	4,068	2,810	2,133
Capital WIP	1,542	933	500	500	500
Investments	4,640	4,676	4,676	4,676	4,676
Curr. Assets	29,502	40,691	44,032	46,109	50,094
Inventory	4,842	7,491	7,231	6,525	6,417
Debtors	11,098	23,811	21,709	18,500	17,184
Cash & Bank Balance	9,394	4,636	10,100	15,843	20,989
Loans & Advances	4,168	4,754	4,992	5,241	5,504
Current Liab. & Prov.	27,690	35,287	32,448	28,383	26,751
Creditors	16,924	21,515	19,616	16,716	15,527
Other Liabilities	7,351	8,489	7,284	5,842	5,108
Provisions	3,415	5,283	5,548	5,825	6,116
Net Current Assets	1,812	5,405	11,584	17,726	23,343
Application of Funds	10,614	15,651	20,828	25,711	30,652

E: MOST Estimates

RATIOS					
Y/E SEPTEMBER	2006	2007	2008E	2009E	2010E
Basic (Rs)					
EPS	10.7	13.9	15.0	17.4	18.1
Growth (%)	45.8	30.0	8.1	15.9	4.3
Consolidated EPA	11.8	15.9	15.2	18.2	19.4
Cash EPS	12.0	15.3	16.9	19.5	20.6
Book Value	32.2	47.2	62.5	77.0	91.6
DPS	19	8.0	5.0	5.0	5.0
Payout (incl. Div. Tax.)	22.5	54.9	34.9	29.6	28.1
Valuation (x)					
P/E (Standalone)		16.1	14.9	12.9	12.3
Cash P/E		15.3	16.9	19.5	20.6
EV/EBITDA		9.5	8.4	6.7	5.8
EV/Sales		0.9	0.8	0.7	0.6
Price/Book Value		4.7	3.6	2.9	2.4
Dividend Yield (%)		3.6	2.2	2.2	2.2
Profitability Ratios (%)					
RoE	42.6	40.1	27.7	26.1	23.0
RoCE	62.8	69.1	44.9	39.5	34.8
Turnover Ratios					
Debtors (Days)	92	92	92	92	92
Inventory (Days)	35	35	35	35	35
Creditors. (Days)	136	101	86	73	62
Asset Turnover (x)	4.3	5.0	4.0	3.3	3.0
Leverage Ratio					
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0

CASH FLOW STATEMENT					
(RS MILLION)					
Y/E SEPTEMBER	2006	2007	2008E	2009E	2010E
PBT before EO Items	5,743	9,071	8,187	9,202	9,800
Add : Depreciation	1,260	1,403	1,617	1,905	2,189
Interest	4	4	4	4	4
Less : Direct taxes paid	1,955	3,007	3,483	3,067	3,253
(Inc)/Dec in WC	4,770	-8,351	-716	-398	-471
CF from Operations	9,822	-880	5,609	7,645	8,269
EO Income	146	787	1,216	0	0
CF from operations incl	9,968	-93	6,826	7,645	8,269
(Inc)/dec in FA	-3,085	-2,811	-615	-646	-1,513
(Pur)/Sale of Investments	-1,337	-36	0	0	0
CF from Investments	-4,422	-2,847	-615	-646	-1,513
(Inc)/Dec in Networth	-142	1,060	947	565	236
(Inc)/Dec in Debt	-6	-5	25	0	0
Less : Interest Paid	4	4	4	4	4
Dividend Paid	895	2,947	1,790	1,816	1,842
CF from Fin. Activity	-1,047	-1,896	-822	-1,255	-1,610
Inc/Dec of Cash	4,499	-4,836	5,389	5,743	5,146
Add: Beginning Balance	4,855	9,394	4,636	10,100	15,843
Closing Balance	9,394	4,636	10,025	15,843	20,989



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motiloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

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Disclosure of Interest Statement

Siemens India

- | | |
|---------------------------------------------------------|-----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | Yes |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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