



Siemens India

STOCK INFO.	BLOOMBERG
BSE SENSEX: 13,774	SIEM IN
	REUTERS CODE
S&P CNX: 3,969	SIEM.BO

27 November 2006

Neutral

Previous Recommendation: Buy

Rs1,154

Equity Shares (m)	165.7
52-Week Range	1,408/525
1,6,12 Rel. Perf. (%)	-13/-11/18
M.Cap. (Rs b)	191.2
M.Cap. (US\$ b)	4.3

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
9/05A	36,678	3,012	18.2	93.0	12.7	4.2	37.2	53.2	5.1	40.2
9/06E	60,586	3,917	23.6	30.0	48.8	16.3	37.4	54.1	3.1	29.0
9/07E	83,658	5,534	33.4	41.3	34.6	12.9	41.7	62.5	2.3	21.3
9/08E	118,278	7,915	47.8	43.0	24.2	10.1	47.0	70.7	1.7	15.5

Downgrade in earnings estimates and price target: We downgrade our earnings estimates for Siemens India to account for margin pressure in power business, disappointing performance by Siemens Information Systems (SISL) and disposal of Siemens Public Communications (SPCNL). We now expect the company to report consolidated revenues of Rs84b in FY07 (up 38% YoY) and Rs118b in FY08 (up 41% YoY), and net profit of Rs5.5b for FY07 (up 41.3% YoY, EPS Rs33.4/sh) and Rs7.9b in FY08 (up 43% YoY, EPS Rs47.8/sh).

Expect continued margin pressure for SISL: SISL reported disappointing performance during FY06, with revenues of Rs8.6b (up 34% YoY) and Net Profit of Rs1.4b (up 8% YoY). Net Profit Margin declined to 12.6% during FY06 from 19.4% during FY05, largely a result of higher share of internal (Siemens AG group) jobs, which entail lower margins. Given that IT business of Siemens AG has been bundled as Siemens IT Solutions and Services, with SISL expected to play a key role, we believe that internal businesses would continue to remain a larger share of the overall mix, impacting margins. During FY07, we now expect SISL to report net profit of Rs2.0b (up 46% YoY) and FY08 at Rs2.8b (up 40% YoY).

Valuations and views: We arrive at a price target of Rs1,022/share, based on SOTP methodology. We value the core business earnings at 25x FY08 (September year end) PER at Rs763/sh, SISL at 15x FY08 PER at Rs250/sh and Other subsidiaries at Rs8/sh. At the CMP of Rs1,177/sh, the stock quotes at PER of 48.8x FY06, 34.6x FY07 and 24.2x FY08. We downgrade to **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

Y/E SEPTEMBER	FY05				FY06				FY05	FY06
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Total Revenues	5,307	7,191	6,126	9,419	8,601	11,334	10,465	14,997	28,042	45,397
Change (%)	62.3	53.8	34.0	63.5	62.1	57.6	70.8	59.2	53.4	61.9
EBITDA	449	901	550	927	791	1,214	792	1,244	2,826	4,041
Change (%)	68.7	95.7	23.6	46.5	76.1	34.8	44.1	34.3	56.7	43.0
As % of Revenues	8.5	12.5	9.0	9.8	9.2	10.7	7.6	8.3	10.1	8.9
Depreciation	58	62	78	93	150	81	90	122	291	442
Interest Income	50	51	82	32	54	79	117	116	215	367
Other Income	4	255	33	589	9	419	24	637	881	1,089
PBT	445	1,145	586	1,455	705	1,630	844	1,875	3,631	5,055
Tax	132	351	190	410	215	452	279	508	1,084	1,454
Effective Tax Rate (%)	29.5	30.7	32.5	28.2	30.5	27.7	33.1	27.1	29.8	28.8
Reported PAT	314	794	395	1,045	490	1,178	565	1,367	2,548	3,601
Adjusted PAT	314	794	395	1,045	551	1,178	565	1,367	2,548	3,662
Change (%)	89.6	89.0	28.2	82.5	75.7	48.4	42.9	30.9	73.7	43.8

E: MOST Estimates; Nos are for standalone entity

Disappointing FY06 performance

During FY06, Siemens India reported consolidated revenues of Rs60.3b (up 65% YoY), and net profit of Rs3.9b (up 30% YoY). While revenues have been in line with estimates of Rs60.8b, the reported net profit is significantly below estimates of Rs4.9b, primarily due to margin pressure in power division, and poor performance of SISL and SPCNL. On standalone basis, during FY06, Siemens reported revenues of Rs45b (up 64% YoY) and net profit of Rs3.6b (up 41% YoY).

Margins pressure in power division

Power division (standalone company) reported revenues of Rs19.8b (up 104% YoY) during FY06, while EBIT margins declined to 6.2% (down from 8% YoY). The management stated that key reasons for the decline are (a) raw material pricing pressures (b) increased staff costs and (c) investments in new manufacturing facilities like transformers, etc. Given the robust order book post the recent order win of Rs36b from Qatar), we expect the division to report revenues of Rs36b in FY07 (up 80% YoY) and Rs53b in FY08 (up 50% YoY). We assume EBIT margin expansion of 30bp in FY07 and stagnant margins in FY08.

Automation and Drives business reported revenues of Rs12.2b during FY06 (up 38% YoY), while EBIT increased to 8.6% (up from 6.7% YoY). Margins pressure for power business has led to decline in EBIT margins for Siemens India to 8% during FY06, as compared to 9.3% during FY05.

SISL: Margins disappoint, as share of internal work increases

SISL reported disappointing performance during FY06, with revenues of Rs8.6b (up 34% YoY) and Net Profit of Rs1.4b (up 8% YoY). Net Profit Margin declined to 12.6% during FY06 from 19.4% during FY05, largely a result of higher share of internal (Siemens AG group) jobs, which entail lower margins. Given that IT business of Siemens AG has been bundled as Siemens IT Solutions and Services, with

SISL expected to play a key role, we believe that internal businesses would continue to remain a larger share of the overall mix, impacting margins. During FY07, we now expect SISL to report net profit of Rs2.0b (up 46% YoY) and FY08 at Rs2.8b (up 40% YoY).

SISL PERFORMANCE (RS M)

	FY05	FY06	% YOY
New Orders	6,642	10,748	61.8
Revenues	6,441	8,606	33.6
Order Book	3,038	5,215	71.7
PBT	1,459	1,687	15.6
<i>PBT (%)</i>	23	20	
Net Profit	1,251	1,356	8.4
<i>Net Profit (%)</i>	19	16	

Source: Company/Motilal Oswal Securities

SPCNL: Disappointing performance, business being hived off

The key reason for disappointing performance of SPCNL (acquired during May 2005) has been pricing pressures. The management stated that the poor performance did not come as a surprise to them, as the business had been erratic in the past. During four months (May 24 - September 30, 2005), SPCNL reported revenues of Rs2.6b and Net profit of Rs263m; while during FY05, the company reported revenues of Rs4.8b and net profit of Rs276m. During FY06, the company reported net profit stood at Rs207m. SPCNL, along with the Enterprise Network business of Siemens is being hived off in joint venture with Nokia and Siemens AG, and the consideration for the same has not been decided (our expectations: Rs2-2.5b; SPCNL acquired by Siemens India in May 2005 at EV of Rs2b).

SPCNL PERFORMANCE (RS M)

	FY05	FY06	% YOY
New Orders	6,037	7,613	26.1
Revenues	4,776	6,190	29.6
Order Book	3,997	5,994	50.0
PBT	398	369	-7.3
<i>PBT (%)</i>	8	6	
Net Profit	276	207	-25.0
<i>Net Profit (%)</i>	6	3	

Source: Company

Order book continues to be robust

Order intake during FY06 stood at Rs82b, up 98.9% YoY; during 4QFY06 order intake stood at Rs12.4b (up 32% YoY). Order book as at Sept 06 stood at Rs75b, down from Rs77b during 3Q and Rs76b during 2QFY06. Order book during 1QFY06 was Rs70.6b.

Downgrade in earnings estimates, price target

We downgrade our earnings estimates for Siemens India to account for margins pressure in power business, disappointing performance by SISL and disposal of SPCNL. We now expect the company to report consolidated revenues of Rs84b in FY07 (up 38% YoY) and Rs118b in FY08 (up 41% YoY), and net profit of Rs5.5b for FY07 (up 41.3% YoY, EPS Rs33.4/sh) and Rs7.9b in FY08 (up 43% YoY, EPS Rs47.8/sh).

TREND IN CONDOLIDATED NET PROFIT (RS M)

	FY06	FY07	FY08
Core Business	2,296	3,486	5,059
SISL	1,356	1,974	2,763
SPCNL	207	0	0
Others	58	74	93
Consolidated Net Profit	3,917	5,534	7,915

Source: Company

We arrive at a price target of Rs1,022/sh, based on SOTP methodology. We value the core business earnings at 25x FY08 (Sept year end) PER at Rs763/sh, SISL at 15x FY08 PER at Rs250/sh and Other subsidiaries at Rs8/sh. At the CMP of Rs1,177/sh, the stock quotes at PER of 48.8x FY06, 34.6x FY07 and 24.2x FY08. We downgrade to **Neutral**.

SUM OF THE PARTS (RS/SH)

	METHOD	VALUATION	VALUE MULTIPLE	VALUE (RS M)	RATIONALE (RS/SH)
Standalone Business	FY08 P/E*	25	126,483	763	Premium to Industry Average
SISL	FY08 P/E	15	41,446	250	In line with Tier-II IT Companies
Other Subsidiaries	FY08 P/E	15	1,394	8	
Target Price			169,323	1,022	

* September Year end

Source: Motilal Oswal Securities

SEGMENTWISE PERFORMANCE ANALYSIS (RS M)

	1QFY05	2QFY05	3QFY05	4QFY05	FY05	1QFY06	2QFY06	3QFY06	4QFY06	FY06
Segment wise Revenues										
Information and Communication	241	293	245	300	1,079	354	367	346	351	1,418
<i>Growth (%)</i>	47.0	30.0	20.0	5.0	23.0	47.0	26.0	41.0	17.0	31.0
Automation & Drives	1,850	2,373	1,887	2,729	8,839	2,263	3,211	2,857	3,878	12,210
<i>Growth (%)</i>	50.0	38.0	24.0	47.0	40.0	22.0	35.0	51.0	42.0	38.0
Industrial Solutions & Services	694	821	510	844	2,869	956	1,215	1,177	1,972	5,321
<i>Growth (%)</i>	75.0	12.0	-18.0	50.0	24.0	38.0	48.0	131.0	134.0	85.0
Power	1,431	2,223	2,127	3,892	9,674	3,495	4,743	4,602	6,941	19,782
<i>Growth (%)</i>	108.0	99.0	103.0	110.0	106.0	144.0	113.0	116.0	78.0	104.0
Transport	370	461	451	535	1,817	626	630	544	682	2,483
<i>Growth (%)</i>	11.0	5.0	10.0	52.0	18.0	69.0	37.0	20.0	28.0	37.0
Healthcare & Other Services	519	1,118	809	1,237	3,682	761	997	896	1,483	4,138
<i>Growth (%)</i>	21.0	43.0	29.0	33.0	33.0	47.0	-11.0	11.0	20.0	12.0
Building Technologies	109	137	86	125	458	160	167	155	274	756
<i>Growth (%)</i>		5.0	27.0	14.0	49.0	46.0	22.0	81.0	118.0	65.0
Real Estate	97	111	109	125	441	90	102	96	133	421
<i>Growth (%)</i>	10.0	25.0	16.0	22.0	18.0	-7.0	-7.0	-12.0	6.0	-5.0
Automotive						316	304	308	313	1,240
Less - Inter-segment	-280	-388	-248	-457	-1,374	-510	-589		-1,107	-2,666
Total	5,031	7,149	5,974	9,330	27,485	8,511	11,150	10,982	14,920	45,103
<i>Growth (%)</i>	64.0	51.0	34.0	66.0	54.0	69.0	56.0	84.0	60.0	64.0
Segmentwise EBIT										
Information & Communication	25	31	22	31	109	36	46	36	28	146
<i>EBIT Margin (%)</i>	10.2	10.7	8.9	10.4	10.1	10.2	12.5	10.3	8.1	10.3
Automation & Drives	110	192	54	238	594	142	348	171	391	1,052
<i>EBIT Margin (%)</i>	5.9	8.1	2.8	8.7	6.7	6.3	10.8	6.0	10.1	8.6
Industrial Solutions & Services	62	112	77	60	311	89	179	115	202	585
<i>EBIT Margin (%)</i>	9.0	13.7	15.0	7.1	10.8	9.3	14.7	9.7	10.3	11.0
Power	101	251	206	214	773	258	402	274	294	1,228
<i>EBIT Margin (%)</i>	7.1	11.3	9.7	5.5	8.0	7.4	8.5	6.0	4.2	6.2
Transport	33	34	39	119	226	73	71	30	32	206
<i>EBIT Margin (%)</i>	9.0	7.3	8.7	22.3	12.4	11.7	11.2	5.6	4.7	8.3
Healthcare & Other Services	-35	90	30	68	153	9	-6	12	85	100
<i>EBIT Margin (%)</i>	-6.8	8.0	3.8	5.5	4.2	1.2	-0.6	1.3	5.7	2.4
Building Technologies	6	8	6	9	29	9	13	6	13	41
<i>EBIT Margin (%)</i>	5.9	5.7	6.7	7.3	6.4	5.9	7.7	3.8	4.6	5.4
Real Estate	90	121	64	94	370	51	65	58	74	248
<i>EBIT Margin (%)</i>	92.7	109.3	59.1	75.7	83.8	56.4	63.1	60.4	56.2	58.9
Automotive						-24	20	10	11	17
<i>EBIT Margin (%)</i>						-7.6	6.6	3.4	3.5	1.4
Total	392	839	498	834	2,564	643	1,136	712	1,131	3,623
<i>EBIT Margin (%)</i>	7.8	11.7	8.3	8.9	9.3	7.6	10.2	6.5	7.6	8.0

Source: Company

Siemens: an investment profile

Company description

Siemens India is a 55% subsidiary of Siemens AG, with business mix encompassing a play on infrastructure and industrial sectors. In infrastructure, it 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.

Key investment arguments

- Siemens India is ideally positioned to take advantage of the accelerated investments in both infrastructure and industrial segments.
- Current order book at Rs100b+ (~1.8x FY06 consolidated revenues) provides strong growth visibility.
- Strong net profit CAGR of 42.2% till FY08 on consolidated basis.

Key investment risks

- Slowdown of power sector reforms, deterioration of financial health of SEBs and downturn in the industrial capex cycle may hamper growth
- Margin pressures due to higher raw material costs, increased competitive pressures, etc.

COMPARATIVE VALUATIONS

		SIEMENS	ABB	L&T
P/E (x)	FY06E	48.8	68.4	38.4
	FY07E	34.6	44.7	24.2
P/BV (x)	FY06E	16.3	16.5	8.4
	FY07E	12.9	12.6	6.9
EV/Sales (x)	FY06E	3.1	4.9	2.7
	FY07E	2.3	3.3	2.2
EV/EBITDA (x)	FY06E	29.0	45.5	35.6
	FY07E	21.3	29.8	23.1

For Siemens - FY06 is Sept. ending 2006 and FY07E is Sept ending 2007, For ABB - FY06 is Dec ending 2005 and FY07 is Dec ending 2006

SHAREHOLDING PATTERN (%)

	SEP.06	JUN.06	SEP.05
Promoters	55.2	55.2	54.6
Domestic Institutions	15.2	14.5	16.9
FII's/FDIs	12.3	12.4	9.6
Others	17.3	17.9	18.9

Recent developments

- Received order of Rs36b for setting up power transmission and distribution network in Qatar. This is the largest order for Siemens AG global Power Transmission and Distribution division.
- SPCNL, along with the Enterprise Network business of Siemens is being hived off in joint venture with Nokia and Siemens AG.

Valuation and view

- At the CMP of Rs1,154/sh, the stock quotes at PER of 48.8x FY06, 34.6x FY07 and 24.2x FY08.
- We downgrade to **Neutral**, with price target of Rs1,022.

Sector view

- Power sector is expected to witness increased traction till FY07, both on generation and transmission.
- Investments in manufacturing industries are likely to continue their momentum as they are operating at their peak utilization rates.
- Buoyant demand and stable raw-material prices have resulted in EBITDA margins expansion.

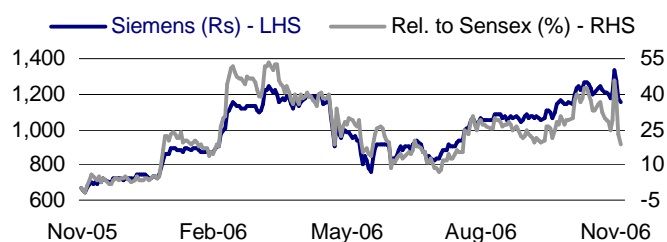
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	33.4	43.3	-22.8
FY06	47.8	57.9	-17.5

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
1,154	1,022	-11.4	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT (CONSOLIDATED)					
(RS MILLION)					
Y/E SEPTEMBER	2004	2005	2006	2007E	2008E
Net Sales	22,456	36,379	60,323	83,280	117,881
Other Operating Income	283	299	264	378	397
Change (%)	30.6	62.0	65.8	38.1	415
Cost of Sales and Services	14,214	23,084	39,613	56,864	80,113
Staff Cost	3,151	4,834	7,626	7,849	10,426
Office and Site Estab. Exps	2,669	4,145	6,930	10,027	15,053
EBITDA	2,706	4,615	6,417	8,919	12,686
Change (%)	43.9	70.6	39.0	39.0	42.2
Margin (%)	2.0	2.7	10.6	10.7	10.8
Depreciation	-476	-684	-1,260	-1,600	-2,100
Other Income	194	473	586	777	1,105
Share in Profit in Assoc. Co	16	22	40	0	0
Profit before Taxes	2,439	4,425	5,783	8,095	11,691
Change (%)	44.2	81.4	30.7	40.0	44.4
Margin (%)	10.9	2.2	9.6	9.7	9.9
Tax	936	1,428	1,955	2,561	3,776
Tax Rate (%)	38.4	32.3	33.8	31.6	32.3
Profit after Taxes	1,503	2,997	3,828	5,534	7,915
Change (%)	2.17	99.5	27.7	44.6	43.0
Margin (%)	6.7	8.2	6.3	6.6	6.7
Minority Interest	0	-9	-4	0	0
Extraordinary Income/(Exp).	191	103	92	0	0
Reported PAT	1,694	3,092	3,917	5,534	7,915

BALANCE SHEET					
(RS MILLION)					
Y/E SEPTEMBER	2004	2005	2006	2007E	2008E
Share Capital	331	331	331	331	331
Reserves	6,671	8,847	11,873	15,999	22,154
Net Worth	7,002	9,179	12,205	16,331	22,486
Minority Interest	0	72	76	76	76
Loans	29	961	929	895	864
Capital Employed	7,031	10,211	13,210	17,302	23,425
Gross Block	6,976	9,379	10,155	11,411	12,819
Less: Accum. Depn.	4,398	5,248	5,983	6,958	8,013
Net Fixed Assets	2,579	4,130	4,172	4,453	4,805
Capital WIP	81	613	305	402	493
Investments	408	847	847	847	847
Curr. Assets, L&A	14,462	24,041	37,384	58,849	82,061
Inventory	1,698	3,700	6,074	8,301	11,633
Account Receivables	4,259	10,700	17,565	24,007	33,642
Cash and Bank Balance	6,411	6,745	10,126	22,197	31,574
Loans and Advances	2,094	2,896	3,620	4,344	5,212
Curr. Liab. and Prov.	10,768	19,848	29,927	47,677	65,210
Current Liabilities	8,809	16,429	25,104	40,964	56,400
Provisions	1,959	3,419	4,823	6,714	8,810
Net Current Assets	3,695	4,193	7,457	11,172	16,852
Deferred Tax Asset/(Liab)	269	428	428	428	428
Application of Funds	7,031	10,211	13,210	17,302	23,425

E: M O S t Estimates

RATIOS					
Y/E SEPTEMBER	2004	2005	2006	2007E	2008E
Basic (Rs)					
EPS	9.1	18.1	23.1	33.4	47.8
Cash EPS	119	22.2	30.7	43.1	60.4
BV/Share	42.3	55.4	73.7	98.6	135.7
DPS	18	2.0	5.0	8.0	10.0
Payout %	19.8	11.1	21.6	24.0	20.9
Valuation (x)					
P/E		63.8	49.9	34.6	24.2
Cash P/E		51.9	37.6	26.8	19.1
EV/Sales		5.1	3.0	2.0	1.4
EV/EBITDA		40.2	28.4	19.1	12.7
P/BV		20.8	15.7	11.7	8.5
Return Ratios (%)					
RoE	215	32.7	31.4	33.9	35.2
RoCE	34.5	43.1	43.5	46.8	49.9
Working Capital Ratios					
Debtor (Days)	69	107	106	105	104
Asset Turnover (x)	3.2	3.6	4.6	4.8	5.0
Leverage Ratio					
Debt/Equity (x)	0.0	0.1	0.1	0.1	0.0

CASH FLOW STATEMENT					
(RS MILLION)					
Y/E SEPTEMBER	2004	2005	2006	2007E	2008E
OP/(loss) before Tax	2,439	4,425	5,783	8,095	11,691
Depreciation and Amort.	476	684	1,260	1,600	2,100
Interest Paid	0	0	0	0	0
Direct Taxes Paid	-936	-1,428	-1,955	-2,561	-3,776
(Incr)/Decr in WC	2,182	-164	116	8,357	3,698
CF from Operations	4,162	3,518	5,204	15,491	13,713
Extraordinary Items	0	-9	-4	0	0
(Incr)/Decr in FA	-219	-2,934	-469	-1,353	-1,499
(Pur)/Sale of Investments	-378	-439	0	0	0
CF from Invest.	-596	-3,382	-472	-1,353	-1,499
Issue of Shares	0	0	0	0	0
(Incr)/Decr in Debt	-2	932	-31	-34	-32
Dividend Paid	-8	-9	-23	-36	-45
Others	-508	-725	-705	-814	-1,157
CF from Fin. Activity	-518	198	-759	-884	-1,234
Incr/Decr of Cash	3,047	334	3,973	13,255	10,980
Add: Opening Balance	3,364	6,411	6,745	10,126	22,197
Closing Balance	6,411	6,745	10,718	23,380	33,177

N O T E S

For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah, Mihir Kothari

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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Siemens India

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