

April 28, 2008

Rating	Market Performer
Price	Rs581
Target Price	Rs602
Implied Upside	3.8%
Sensex	17,016

(Prices as on April 28, 2008)

Trading Data

Market Cap. (Rs bn)	217.2
Shares o/s (m)	337.2
Free Float	44.8%
Avg. Daily Vol ('000)	909.8
Avg. Daily Value (Rs m)	671.5

Major Shareholders

Promoters	55.2%
Foreign	5.9%
Domestic Inst.	18.3%
Public & Others	20.6%

Stock Performance

(%)	1M	6M	12M
Absolute	(12.3)	(32.8)	(0.8)
Relative	(16.2)	(21.2)	(23.1)

Price Performance (RIC: SIEM.BO, BB: SIEM IN)



Source: Bloomberg

Siemens

Provision, order reversal result in bad numbers

- Results:** Siemens reported 1% YoY growth in revenue to Rs21bn, while its PAT declined 98.5% from Rs1.1bn in Q2FY07 to Rs17m in Q2FY08. Three factors contributed to this dismal performance; a provision of Rs1.1bn for estimated losses on certain contracts, an order reversal of Rs1.17m relating to construction contracts and finally due to hiving off buildings technology and information & communication segments into separate entities, and the sale of the automotive segment in FY07. Together these three segments accounted for 5% of revenue in Q2FY07.
- Power and transport segment takes a hit:** The power and transport segment, which accounted for 53% and 8% of revenue for Q2FY08, recorded an EBIT level loss of Rs93m and Rs869m respectively. We believe that 75% of the Rs1.1bn provision for loss has been booked in the power segment and remaining in the transport segment. Since this is a one-time adjustment, EBIT margin for the two segments could go back to their traditional levels in the coming quarters.
- Order book:** Order intake for the quarter stood at Rs23bn, a 20% YoY increase. Its current order book stands at Rs95bn a YoY decrease of 11.9% from Rs108bn in Q2FY07.
- Valuation:** Owing to the dismal performance in Q2FY08, we have revised our EPS forecast downwards for FY08E and FY09E from Rs26.3 to Rs23.2 and Rs35.7 to Rs30 respectively. At the current market price of Rs581, the stock trades at 25.0x and 19.3x FY08E and FY09E earnings. We have revised our rating on the stock from Outperformer to Market Performer with a price target of Rs602, implying a return of 3.8%.

Key financials (Y/e Sept)	FY06	FY07	FY08E	FY09E
Revenue (Rs m)	60,080	93,556	118,664	156,636
Growth (%)	65.3	55.7	26.8	32.0
EBITDA (Rs m)	5,910	9,218	11,510	15,507
PAT (Rs m)	3,916	6,929	7,817	10,157
EPS (Rs)	11.6	20.5	23.2	30.1
Growth (%)	26.7	76.9	12.8	29.9
Net DPS (Rs)	3.8	4.0	5.0	7.0

Source: Company Data; PL Research

Profitability & valuation	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	9.8	9.9	9.7	9.9
RoE (%)	30.8	37.2	34.1	35.8
RoCE (%)	33.1	38.7	24.9	24.0
EV / sales (x)	3.0	2.0	1.5	1.1
EV / EBITDA (x)	30.9	20.2	15.6	11.5
PE (x)	50.0	28.2	25.0	19.3
P / BV (x)	15.8	10.7	8.5	6.9
Net dividend yield (%)	0.3	0.3	0.9	1.2

Source: Company Data; PL Research

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Segmental break-up

(Rs m)

	Q2FY08	Q2FY07	YoY gr. (%)	Q1FY08	H1FY08	H1FY07	YoY gr. (%)
Revenue							
Auto and drives	5,572	4,385	27.1	4,417	9,989	7,548	32.3
Industrial solution and service	3,053	2,713	12.5	2,271	5,324	4,351	22.4
Power	11,375	11,867	(4.1)	10,825	22,200	21,754	2.0
Transport	1,662	796	108.9	1,452	3,114	1,380	125.6
Health care	1,355	1,586	(14.6)	1,102	2,457	2,353	4.4
Real estate	180	125	44.0	133	313	237	31.8
Inter-segment	(1,772)	(1,182)	49.9	(1,287)	(3,059)	(1,954)	56.6
Total	21,424	21,292		19,144	40,568	37,561	
EBIT							
Auto and drives	471	362	30.2	269	740	503	47.2
Industrial solution and service	356	291	22.4	258	614	476	29.0
Power	(93)	698	(113.3)	920	827	1,411	(41.4)
Transport	(869)	27	NM	(139)	(1,008)	83	NM
Healthcare	57	47	22.0	(6)	51	(20)	(358.4)
Real estate	81	85	(4.8)	8	89	157	(43.3)
EBIT margins (%)							
Auto and drives	8.5	8.3		6.1	7.4	6.7	
Industrial solution and service	11.7	10.7		11.4	11.5	10.9	
Power	(0.8)	5.9		8.5	3.7	6.5	
Transport	(52.3)	3.4		(9.6)	(32.4)	6.0	
Health care	4.2	2.9		(0.6)	2.1	(0.8)	
Real estate	45.0	68.1		6.2	28.5	66.2	



Q2FY08 result overview

(Rs m)

Y/e Sept	Q2FY08	Q2FY07	YoY gr. (%)	Q1FY08	H1FY08	H1FY07	YoY gr. (%)
Net sales	21,546	21,352	0.9	19,195	40,741	37,683	8.1
Expenditure							
Raw material	18,235	17,152	6.3	15,510	33,745	30,416	10.9
<i>% of net sales</i>	<i>84.6</i>	<i>80.3</i>		<i>80.8</i>	<i>82.8</i>	<i>80.7</i>	
Personnel cost	1,015	987	2.8	968	1,982	1,837	7.9
<i>% of net sales</i>	<i>4.7</i>	<i>4.6</i>		<i>5.0</i>	<i>4.9</i>	<i>4.9</i>	
Others	2,144	1,536	39.6	1,170	3,314	2,521	31.5
<i>% of net sales</i>	<i>9.9</i>	<i>7.2</i>		<i>6.1</i>	<i>8.1</i>	<i>6.7</i>	
Total expenditure	21,394	19,675	8.7	17,647	39,041	34,774	12.3
EBITDA	152	1,677	(90.9)	1,548	1,700	2,909	(41.6)
<i>Margin (%)</i>	<i>0.7</i>	<i>7.9</i>		<i>8.1</i>	<i>4.2</i>	<i>7.7</i>	
Other income	68	162	(57.8)	146	214	440	(51.2)
Depreciation	149	109	37.1	151	300	212	41.6
EBIT	71	1,730	(95.9)	1,543	1,615	3,137	(48.5)
Interest	-	-		-	-	-	#DIV/0!
PBT	71	1,730	(95.9)	1,543	1,615	3,137	(48.5)
Total taxes	55	650	(91.6)	819	873	1,075	(18.8)
<i>ETR (%)</i>	<i>76.7</i>	<i>37.5</i>		<i>53.0</i>	<i>54.1</i>	<i>34.3</i>	
PAT	17	1,081	(98.5)	725	741	2,061	(64.0)
Extra-ordinary items	-			1,246	1,246		
Reported PAT	17	1,081	(98.5)	1,971	1,987	2,061	(3.6)



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PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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