



Siemens India

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,135	SIEM IN
	REUTERS CODE
S&P CNX: 3,654	SIEM.BO

4 May 2009

Neutral

Previous Recommendation: Neutral

Rs337

Equity Shares (m)	337.2
52-Week Range	600/186
1,6,12 Rel. Perf. (%)	7/-9/-11
M.Cap. (Rs b)	113.5
M.Cap. (US\$ b)	2.3

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
9/07A	77,660	5,369	15.9	35.1	21.1	7.1	40.1	69.1	1.4	14.7
9/08A	83,577	5,214	14.6	-8.3	23.1	5.5	28.5	46.2	1.2	13.4
9/09E	81,063	6,015	18.5	26.8	18.2	3.6	23.0	45.9	1.2	9.7
9/10E	89,866	5,682	17.5	-5.7	19.3	3.1	16.7	26.7	1.0	9.8

* Consolidated

Siemens India reported above estimate 2QFY09 results driven by upward revision of revenues and EBITDA on completion of certain projects, given recalculation of costs. While power division witnessed revenue growth of 25% YoY (including revenue revisions), industrials remained flat YoY. Industrials witnessed EBITDA margin pressure with 180bp YoY decline in 2QFY09. Order intake continues to be weak at Rs19b (-20.6% YoY, -6% QoQ) resulting in stagnant order book.

Takeaways from Analyst Meet

- Order intake was impacted as Siemens did not participate in various project bids given concerns on profitability and customer payments. Also, short cycle industrial business was impacted given inventory rundown at dealers end and financing issues for customers.
- Working capital improved marginally QoQ in 2QFY09, with debtors turnover at 2.1x (vs 2.2x in Dec 08) and inventory turnover at 9x (vs 8.8x in Dec 08).
- In 2QFY09, Siemens Building Technologies (86% subsidiary) reported standalone order intake of Rs3b (vs Rs8b YoY), revenues of Rs4.4b (vs Rs4.7b YoY) and Pre tax loss of Rs260m (vs profit of Rs40m YoY). During 2QFY09, Siemens increased its stake from 79.3% to 86.2% and the transaction values SBTPL at Rs11.6b.
- Capex to be maintained at ~Rs2b pa for FY09 and FY10.

Valuation and view: We have revised our earnings estimate to factor in the lower costs on certain completed projects in FY09. We now expect Siemens to report EPS of Rs18.5/sh (up 27% YoY) in FY09 and Rs17.5/sh (down 6% YoY) in FY10. At CMP of Rs337, stock quotes at PER of 18x FY09 and 19x FY10. Maintain **Neutral**, with price target of Rs262/sh (15x FY10E).

QUARTERLY PERFORMANCE (STANDALONE)										(Rs Million)	
Y/E SEPTEMBER	FY08				FY09E				FY08	FY09E	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			
Total Revenues	19,195	21,546	18,204	24,636	16,399	23,830	16,593	24,242	83,582	81,063	
Change (%)	17.5	0.9	1.7	11.7	-14.6	10.6	-8.9	-1.6	7.6	-3.0	
EBITDA	1,548	152	2,654	3,437	1,702	3,489	1,755	2,957	7,791	9,903	
Change (%)	25.4	-90.9	191.7	-3.9	10.0	2,192.9	-33.9	-14.0	5.1	27.1	
As % of Revenues	8.1	0.7	14.6	13.9	10.4	14.6	10.6	12.2	9.3	12.2	
Depreciation	151	149	161	178	181	184	193	206	639	765	
Interest Income	131	54	111	157	165	94	115	94	451	468	
Other Income	16	15	16	21	2,233	30	0	0	67	2,263	
PBT	2,789	71	2,620	3,436	3,919	3,429	1,677	2,845	8,916	11,869	
Tax	819	55	926	1,186	613	1,174	570	1,005	2,984	3,362	
Effective Tax Rate (%)	29.4	76.6	35.3	34.5	15.6	34.2	34.0	35.3	33.5	28.3	
Reported PAT	1,970	17	1,694	2,250	3,306	2,255	1,107	1,839	5,931	8,507	
Adjusted PAT	1,090	17	1,694	2,250	1,073	2,255	1,107	1,839	5,051	6,274	
Change (%)	10.8	-98.5	164.0	14.8	-1.6	13,428	-34.7	-18.3	8.1	24.2	

E: MOSL Estimates; Nos are for standalone entity

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2QFY09 above estimates, driven by completion of large projects

Siemens India reported above estimate 2QFY09 results driven by upward revision of revenues and EBITDA on completion of certain projects. While Power division witnessed revenue growth of 25% YoY (including revenue revisions), industrials remained flat YoY. Industrials continue to witness EBITDA margin pressure with 180bpYoY decline in 2QFY09. Order intake continues to be weak at Rs19b (-20.6% YoY, -6% QoQ) resulting in stagnant order book at Rs97b (+1.4% YoY, -5.4% QoQ).

Additional revenue recognition on few projects drives 11% YoY revenue growth:

During 2QFY09, Siemens India reported standalone revenues of Rs23.9b (up 10.6% YoY), EBIDTA of Rs3.5b (Margin 14.6%) and net profit of Rs2.3b. Numbers are non-comparable on YoY basis due to provisions of Rs2.3b during 2QFY08 towards certain projects, towards reversal of revenues (post change in cost estimates) and for estimated losses given increase in input costs. During 2QFY09, a part of such provisions have been written back, as certain major projects have been completed. We had estimated revenues of Rs19.5b (-9.6% YoY), EBITDA margin at 10% and PAT of Rs1.3b. The management has not disclosed the quantum of the provisions written back on the completed projects in 2QFY09.

Segmentwise analysis indicates that power transmission division reported revenues of Rs9.8b in 2QFY09 (vs Rs3.9b in 1QFY09 and Rs8.6b in 2QFY08). Given that large part of the Qatar orders (Rs63b) have been completed in 4QCY08, the meaningful increase in transmission business revenues on QoQ basis is a surprise.

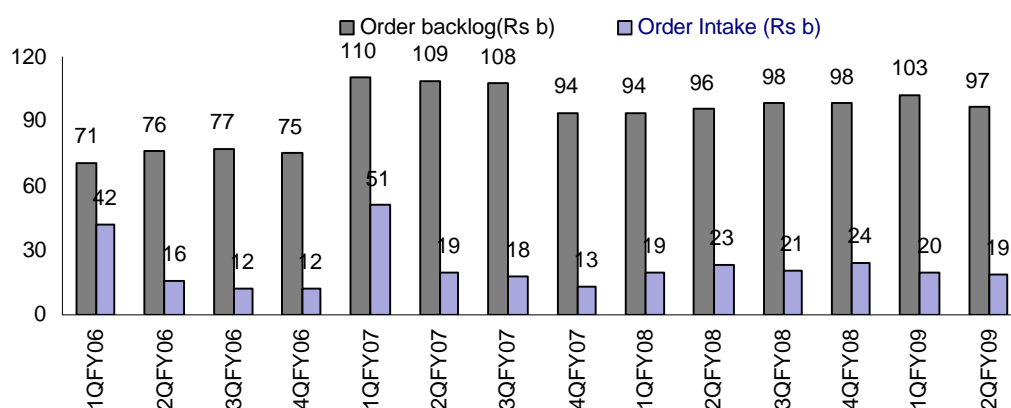
SEGMENTAL REVENUES (RS M)

REVENUES	FY08			FY09			1HFY09	FY08
	1Q	2Q	1H	1Q	2Q	1H	%YOY	
Industry	8,039	10,187	18,225	9,214	10,229	19,444	6.7	39,328
Industrial automation	2,031	2,608	4,640	2,145	2,222	4,367	(5.9)	9,904
Drive technologies	2,193	2,750	4,943	2,448	2,947	5,395	9.1	10,108
Building technology	192	213	405	147	208	356	(12.3)	925
Indl. solutions & services	2,144	2,881	5,025	2,237	2,507	4,743	(5.6)	11,439
Mobility - Railway	1,478	1,734	3,212	2,237	2,346	4,583	42.7	6,952
Energy	10,926	11,474	22,400	7,663	14,305	21,969	(1.9)	42,725
Power generation	675	-80	595	885	840	1,725	189.9	1,300
Oil and gas	1,178	1,075	2,254	930	1,409	2,339	3.8	5,115
Power transmission	7,596	8,621	16,216	3,881	9,759	13,639	(15.9)	28,415
Power distribution	1,477	1,858	3,335	1,968	2,297	4,265	27.9	7,896
Healthcare & other services	1,102	1,355	2,457	1,171	1,223	2,393	(2.6)	6,053
Real estate	133	180	313	152	183	335	7.2	645
Discounted operations	232	0	232	0	0	0	(100.0)	232
Gross Sales	20,431	23,195	43,626	18,200	25,940	44,141	1.2	88,983
Less: inter-seg revenues	1,287	1,772	3,059	1,911	2,259	4,170	36.3	6,028
Net sales	19,144	21,424	40,567	16,289	23,681	39,971	(1.5)	82,955

Source: Company

Order book continues to be stagnant for 10 quarters now: Order book at the end of 2QFY09 stands at Rs97b (+1.4% YoY, -5.4% QoQ). During 2QFY09, order intake is Rs18.6b (-20.6% YoY, -6.1% QoQ). The order book is stagnant for past 10 quarters, which we believe will constrain execution. Management stated that order intake is impacted as Siemens did not participate in various projects, given concerns on profitability and customer payments. Also, in short cycle industrial business, order intake has been impacted given the inventory rundown at dealers end and financing issues for customers.

ORDER BOOK STAGNANT FOR 10 QUARTERS



Source: Company

SEGMENT WISE ORDER INTAKE (RS M)

	1HFY09	1HFY08	% CHG (YOY)
Industry	18,655	19,778	-5.7
Energy	17,522	19,180	-8.6
Healthcare	1,862	3,069	-39.3
RE and Others	352	515	-31.7
Total	38,391	42,542	-9.8

Source: Company

Transmission business contributes 61% of EBIT, vs 38% in FY08

Transmission business reported EBIT of 21.4% in 2QFY09 (vs 14.6% in 1QFY09 and 10.4% in 2QFY08). We believe that the higher revenues and margins are because of the revenue and loss provision write-back, given project completions. While the EBIT margin for the industrial segment has witnessed contraction of 180bp YoY to 5.3% in 2QFY09, from 7.1% in 2QFY08, the power/energy division has witnessed margin improvement. Power division EBIT has increased to 18.2% (+2570bp YoY on reported basis and +600bp on adjusted basis). This division had booked loss provision of Rs2.3b during 2QFY09.

SEGMENTAL EBIT MARGIN TREND (%)*

	FY08		FY09		VAR. %	1H	1H	VAR. %	FY08
	1Q	2Q	1Q	2Q		FY08	FY09		
Industry	4.8	7.1	5.2	5.3	-1.8	6.1	5.2	-0.8	7.9
Industrial automation	6.5	8.8	7.7	6.6	-2.3	7.8	7.1	-0.7	9.2
Drive technologies	5.8	8.2	5.2	7.4	-0.8	7.1	6.4	-0.7	8.1
Building technology	4.6	7.0	-1.8	3.2	-3.9	5.9	1.1	-4.8	6.0
Indl. solutions & services	11.7	11.8	11.3	9.8	-2.0	11.8	10.5	-1.3	13.1
Mobility	-9.2	-5.1	-2.9	-3.2	1.9	-7.0	-3.1	3.9	-2.7
Energy	8.5	12.2	12.1	18.2	6.0	0.3	16.1	15.8	7.2
Power generation	-6.1	-	6.9	6.8	NA	-352.3	6.8	-	-143.0
Oil and gas	8.0	10.5	12.2	16.9	6.4	9.2	15.0	5.8	11.1
Power transmission	9.8	10.4	14.6	21.4	10.9	10.1	19.5	9.4	12.0
Power distribution	8.8	9.8	9.2	9.9	0.1	9.4	9.6	0.2	12.3
Healthcare & other services	-0.6	4.2	-1.0	8.9	4.7	2.1	4.0	2.0	5.5
Real estate	65.8	45.0	87.3	78.1	33.1	53.9	82.3	28.4	95.3
Discounted operations	3.5	0.0	0.0	0.0	0.0	1.0	1.0	0.0	3.6
Total EBIT	7.3	0.0	9.3	14.4	14.4	3.5	12.3	8.9	8.6

* Loss provisions of Rs2.3b in power division during 2QFY08

Source: Company

Siemens bought 6.8% stake in SBTPL for Rs791m at pre-decided valuation

During the quarter Siemens increased its stake in subsidiary, Siemens Building Technologies Pvt Ltd (SBTPL) from 79.3% to 86.2%. It purchased additional 6.8% for a consideration of Rs791m (as per the old agreement dated April 2007). This transaction values SBTPL at Rs11.6b. During FY08, SBTPL had posted profit of ~Rs300m including Singapore and Ireland subsidiaries and Rs93m on standalone basis.

SBTPL: PERFORMANCE IMPACTED GIVEN RESIDENTIAL SEGMENT CONTRIBUTES 30%+ TO REVENUES

	1QFY08	2QFY08	1QFY09	2QFY09
Order Intake	280	796	428	297
Revenues	354	466	272	439
PBT	(29)	4	(100)	(26)

Source: Company

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 received a Rs13.8b order from Adani Power (transmission network), of which Rs7.2b will be the share of Siemens India

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

- Stock quotes at PER of 18x FY09 and 19x FY10. Maintain **Neutral**, with price target of Rs262/sh (15x FY10E).

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 Siemens. We remain neutral on the sector.

COMPARATIVE VALUATIONS

		SIEMENS*	ABB#	BHEL
P/E (x)	FY09E	18.2	19.7	24.8
	FY10E	19.3	20.0	19.0
P/BV (x)	FY09E	3.6	3.9	6.3
	FY10E	3.1	3.3	5.1
EV/Sales (x)	FY09E	1.2	1.3	2.9
	FY10E	1.0	1.2	2.4
EV/EBIDTA (x)	FY09E	9.7	12.1	18.8
	FY10E	9.8	12.2	11.9

December Y/E; * September Y/E

SHAREHOLDING PATTERN (%)

	MAR-09	DEC-08	MAR-08
Promoter	55.2	55.2	55.2
Domestic Inst	22.1	21.1	18.3
Foreign	2.3	3.3	5.9
Others	20.4	20.5	20.6

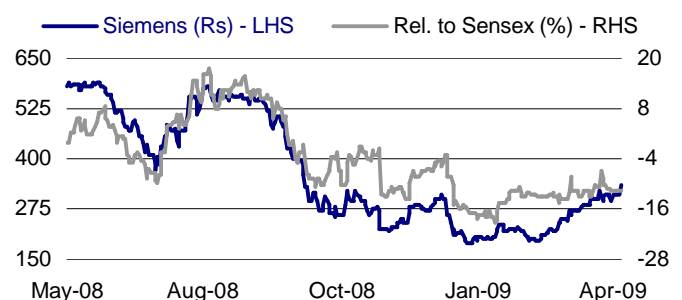
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	18.5	17.0	9.1
FY10	17.5	18.4	-4.7

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
337	262	-	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(RS MILLION)				
Y/E SEPTEMBER	2006	2007	2008	2009E	2010E	
Total Revenues	45,360	77,660	83,577	81,063	89,866	
Change (%)	62.9	71.2	7.6	-3.0	10.9	
Raw Materials	34,639	62,667	67,972	64,851	71,893	
Staff Cost	2,829	4,045	4,476	3,092	4,673	
SGA Expenses	3,888	3,534	3,339	3,218	3,837	
EBITDA	4,004	7,415	7,791	9,903	9,463	
% of Total Revenues	8.8	9.5	9.3	12.2	10.5	
Depreciation	442	492	637	765	956	
Other Income	1,457	1,036	519	468	548	
EO Items (net)	95	783	1,246	2,233	0	
PBT	5,113	8,742	8,918	11,839	9,055	
Tax	1,454	2,777	2,984	3,362	3,169	
Rate (%)	28.4	31.8	33.5	28.4	35.0	
PAT	3,659	5,965	5,933	8,477	5,886	
Adjusted PAT	3,592	4,671	4,925	6,244	5,886	
Change (%)	45.8	30.0	5.4	26.8	-5.7	
Consolidated PAT	3,974	6,928	5,996	8,248	5,682	
Con. Adjusted PAT	3,974	5,369	5,214	6,015	5,682	
Change(%)	31.9	35.1	-2.9	15.3	-5.5	

BALANCE SHEET		(RS MILLION)				
Y/E SEPTEMBER	2006	2007	2008	2009E	2010E	
Share Capital	337	337	674	674	674	
Reserves	10,534	15,572	20,017	30,966	35,684	
Net Worth	10,871	15,909	20,691	31,640	36,358	
Loans	20	15	11	40	40	
Minority Interest	0	0	0	0	0	
Net Deferred Tax Liab	-277	-273	-910	-910	-910	
Capital Employed	10,614	15,651	19,791	30,770	35,488	
Gross Fixed Assets	6,473	8,701	9,911	10,411	10,911	
Less: Depreciation	3,852	4,064	4,339	5,104	6,060	
Net Fixed Assets	2,621	4,637	5,572	5,307	4,851	
Capital WIP	1,542	933	870	500	500	
Investments	4,640	4,676	5,236	4,386	4,386	
Curr. Assets	29,502	40,691	57,253	60,870	62,747	
Inventory	4,842	7,491	7,621	6,688	6,676	
Debtors	11,098	23,811	34,328	30,123	28,400	
Cash & Bank Balance	9,394	4,636	9,131	17,577	20,864	
Loans & Advances	4,168	4,754	6,173	6,482	6,806	
Current Liab. & Prov.	27,690	35,287	49,140	40,293	36,996	
Creditors	16,924	21,515	35,577	27,750	24,624	
Other Liabilities	7,351	8,489	6,291	4,907	4,354	
Provisions	3,415	5,283	7,272	7,636	8,017	
Net Current Assets	1,812	5,405	8,113	20,577	25,751	
Application of Funds	10,614	15,651	19,791	30,770	35,488	

E: MOSL Estimates

RATIOS		(RS MILLION)				
Y/E SEPTEMBER	2006	2007	2008	2009E	2010E	
Basic (Rs)						
EPS	10.7	13.9	14.6	18.5	17.5	
Growth (%)	45.8	30.0	5.4	26.8	-5.7	
Consolidated EPS	11.8	15.9	14.6	18.5	17.5	
Cash EPS	12.0	15.3	16.5	20.8	20.3	
Book Value	32.2	47.2	61.4	93.8	107.8	
DPS	1.9	2.4	5.0	5.0	5.0	
Payout (incl. Div. Tax.)	22.5	18.9	30.3	58.7	62.1	
		26.3	108.3	0.0	0.0	
Valuation (x)						
P/E (Standalone)	31.6	24.3	23.1	18.2	19.3	
Cash P/E	12.0	15.3	16.5	20.8	20.3	
EV/EBITDA	26.0	14.7	13.4	9.7	9.8	
EV/Sales	2.3	1.4	1.2	1.2	1.0	
Price/Book Value	10.4	7.1	5.5	3.6	3.1	
Dividend Yield (%)	0.6	0.7	1.5	1.5	1.5	
Profitability Ratios (%)						
RoE	42.6	40.1	28.5	23.0	16.7	
RoCE	62.8	69.1	46.2	45.9	26.7	
Turnover Ratios						
Debtors (Days)	92	112	152	137	116	
Inventory (Days)	35	35	35	35	35	
Creditors. (Days)	136	101	155	125	100	
Asset Turnover (x)	4.3	5.0	4.2	2.6	2.5	
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	11,610	8,851	
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	3,362	3,169	
(Inc)/Dec in WC	4,770	-8,351	1,786	-4,017	-1,887	
CF from Operations	9,822	-880	8,112	6,139	5,988	
EO Income	146	787	1,216	0	0	
CF from operations incl	9,968	-93	9,328	6,139	5,988	
(Inc)/dec in FA	-3,085	-2,811	-2,488	-1,270	-1,733	
(Pur)/Sale of Investments	-1,337	-36	-561	850	0	
CF from Investments	-4,422	-2,847	-3,049	-420	-1,733	
(Inc)/Dec in Network	-142	-871	-269	6,230	2,564	
(Inc)/Dec in Debt	-6	-5	-5	29	0	
Less : Interest Paid	4	4	4	4	4	
Dividend Paid	895	1,016	1,581	3,528	3,528	
CF from Fin. Activity	-1,047	-1,896	-1,859	2,727	-968	
Inc/Dec of Cash	4,499	-4,836	4,420	8,446	3,287	
Add: Beginning Balance	4,855	9,394	4,636	9,131	17,577	
Closing Balance	9,394	4,636	9,056	17,577	20,864	

N O T E S



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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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