



Siemens India

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,016	SIEM IN
	REUTERS CODE
S&P CNX: 5,090	SIEM.BO

28 April 2008

Neutral

Previous Recommendation: Neutral

Rs581

Equity Shares (m)	337.2
52-Week Range	1,143/513
1,6,12 Rel. Perf. (%)	-16/-21/-23
M.Cap. (Rs b)	195.9
M.Cap. (US\$ b)	4.9

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	36.5	6.2	40.1	69.1	1.2	12.6
9/08E	91,703	5,970	17.7	11.2	32.8	5.3	34.7	51.9	1.0	15.6
9/09E	114,925	7,411	22.0	24.1	26.4	4.5	37.0	55.9	0.8	10.3

* Consolidated

- 2QFY08 performance below estimates:** During 2QFY08, Siemens reported standalone revenues of Rs21.5b (up 0.9% YoY), EBIDTA of Rs152m (down 91% YoY) and net profit of Rs17m (down 98.5% YoY). The revenues and profits were impacted due to revenue reversal (Rs1.2b) and provisions for anticipated losses (Rs1.1b). Adjusted revenue growth stands at just 11% for 2QFY08, while adjusted EBIDTA margins stood at 9.0%. Also, adjusted net profit during 2QFY08 stood at Rs1.6b, up 48.1% YoY.
- Provisions on account of Torrent power project, Railway contracts; Qatar order continues to be profitable:** Large part of cost provisions and revenue reversals pertained to Sugem, Torrent Power project (order size of Rs8.8b). The management indicated that 70% of the provisions pertain to poor subcontractor quality and execution, while 30% pertain to input cost increases. Qatar order (Rs38b) continues to be profitable, despite being on fixed price basis, as the company has subcontracted a significant part under a back to back arrangement.
- Takeaways from Analyst Meet:** 1) Target to double revenues by FY10 2) large part of provisions on Torrent (Sugem) order have been made, and Siemens India is expected to return to normative margin ranges from 3QFY08 onwards 3) Siemens is in discussions with parent company to expand product scope in India, and target new geographies.
- Valuations and views:** We have downgraded our revenue and profit estimates, largely to factor in the lower revenue and margins for the power business. At CMP, the stock trades at PER of 48x FY08 and 32x FY09. We maintain **Neutral**, with revised target of Rs528/sh.

QUARTERLY PERFORMANCE (STANDALONE)

Y/E SEPTEMBER	(Rs Million)									
	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Total Revenues	16,331	21,352	17,902	22,055	19,195	21,546	22,357	28,605	77,660	91,703
Change (%)	89.9	88.4	71.1	47.1	17.5	0.9	24.9	29.7	71.1	18.1
EBITDA	1,234	1,677	910	3,575	1,548	152	1,886	2,337	7,415	5,881
Change (%)	56.1	38.2	14.8	187.3	25.4	-90.9	107.2	-34.6	85.2	-20.7
As % of Revenues	7.6	7.9	5.1	16.2	8.1	0.7	8.4	8.2	9.5	6.4
Depreciation	103	109	121	160	151	149	150	141	492	591
Interest Income	126	105	123	90	131	54	125	141	443	450
Other Income	152	57	295	370	16	15	175	227	593	432
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	2,036	2,563	8,742	7,419
Tax	426	650	389	1,313	819	55	672	903	2,777	2,448
Effective Tax Rate (%)	30.2	37.5	32.2	29.8	29.4	76.6	33.0	35.2	31.8	33.0
Reported PAT	984	1,081	818	3,086	1,970	17	1,364	1,660	5,965	4,970
Adjusted PAT	984	1,081	642	1,960	1,090	17	1,364	1,660	4,671	4,136
Change (%)	78.4	-8.3	13.6	43.4	10.8	-98.5	112.5	-15.3	27.6	-11.5

E: MOST Estimates; Nos are for standalone entity

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2QFY08 performance below estimates

During 2QFY08, Siemens reported standalone revenues of Rs21.5b (up 0.9% YoY), EBIDTA of Rs152m (down 91% YoY) and net profit of Rs17m (down 98.5% YoY). The revenues and profits were impacted due to revenue reversal and provisions for anticipated losses.

Post adjusting the revenue reversal and discontinuation of automotive, buildings and communication divisions, revenue growth stands at just 11% for 2QFY08, which is disappointing. Adjusted EBIDTA margins in 2QFY08 stood at 9.0%, vs. 7.4% YoY. Also, while PBT during 2QFY08 stood at Rs71m, adjusted PBT stood at Rs2.3b, up 35% YoY. Adjusted net profit during 2QFY08 stood at Rs1.6b, up 48.1% YoY.

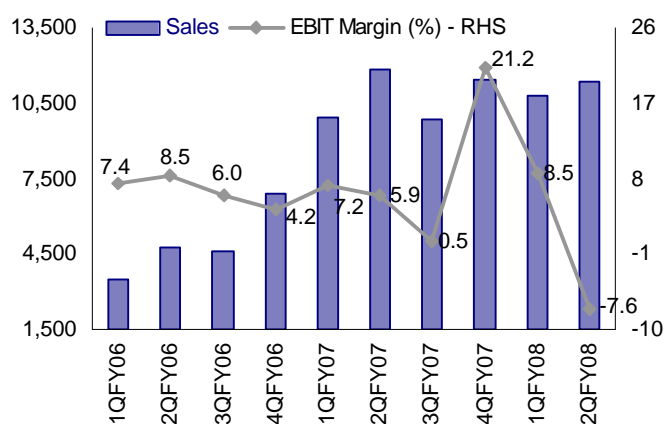
Provisions on account of Torrent power project, Railway contracts; Qatar order continues to be profitable

During 2QFY08, as per the accounting adjustment on construction contracts, there was a reversal Rs1.2b in revenues on account of revised cost estimates as per the percentage completion method. Also, the company provided for Rs1.1b as estimated losses. Segmentwise results indicate that power division reported revenues of Rs11.4b during 2QFY08 (down 4.1% YoY), while EBIT stood at negative Rs869m, and thus a large part of these one-off items pertained to power division.

We understand that a large part of the cost provisions (Rs1.1b) and revenue reversals (Rs1.2b) pertained to Sugem, Torrent Power project. The order size for Siemens India for this project stood at Rs8.8b. Of this, current provisions, plus provisions made during 3QFY07 stood at Rs3b+. The management indicated that 70% of the provisions pertain to poor subcontractor quality and execution, while 30% pertain to input cost increases. Also, in transportation, the company provided Rs232m in 1HFY08 (Rs93m in 2QFY08), largely due to the strategic nature of the project and higher than estimated engineering costs.

The management also stated that Qatar orders (Rs38b received in Nov 06) continue to be profitable. This is despite these orders being on fixed price basis, as the company has subcontracted a significant part under a back to back arrangement. Thus, most of the price risks have been passed on to the sub-contractors.

POWER DIVISION PERFORMANCE (RS M)



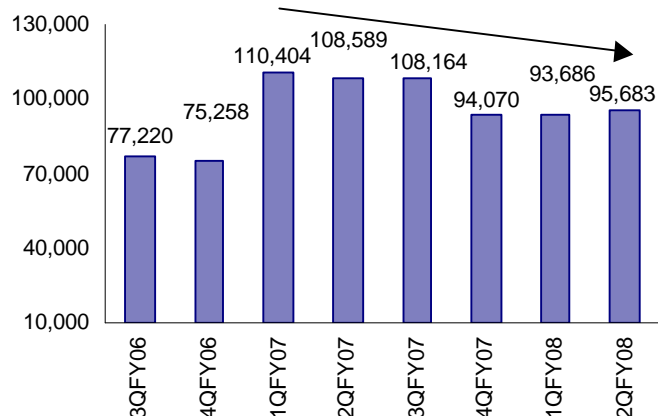
Source: Company

Order book position

During 2QFY08, reported order intake increased 20% YoY to Rs23.4b, while adjusted for discontinued operations (Rs1.1b), order intake was up 27%. Similarly for 1HFY08, while the reported order intake was down 40% (to Rs42.5b), adjusted for discontinued operations (Rs2.0b) and Qatar mega project order (Rs38b), base product order intake increased 38% YoY.

Given limited mega project wins, order book has been largely stagnant for the past six quarters, indicating that revenue growth going forward in the power division would be impacted. Order book as at Mar 08 stands at Rs95.6b (vs Rs108.6b in Mar 07), equivalent to 1.2x FY07 revenues of Rs77.3b. The management indicated that for future, they will be very selective in turnkey projects, and will take only those projects where the company can largely manage the entire chain.

TREND IN ORDER BACKLOG (RS M)



Source: Company

TREND IN ORDER INTAKE, BOOK (RS M) AND BOOK TO BILL RATIO (X)

	FY05	FY06	FY07	MAR 08
Order Intake	41,233	82,025	101,070	23,422
Growth (%)		98.9	23.2	20.0
Order Book	38,139	75,258	94,070	95,683
Growth (%)		97.3	25.0	-11.8
Book to Bill Ratio (x)	1.4	1.7	1.2	1.2

* based on FY07 revenues

Source: Company

Segment wise analysis

During 2QFY08, power division revenues stood at Rs11.4b (down 4.1%) and EBIT margins at negative 7.6% (vs. 5.9% in 2QFY07). For Automation and drives, revenues increased

SEGMENT WISE PERFORMANCE ANALYSIS (RS M)

	FY07				FY08		FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q		
Revenues								
Information and communication	352	469	465	184	-	-	1,470	-
Automation & drives	3,164	4,385	3,706	5,301	4,417	5,572	16,555	22,350
Industrial solutions & services	1,638	2,713	2,369	2,809	2,271	3,053	9,529	13,817
Power	9,888	11,867	9,823	11,431	10,825	11,375	43,008	49,459
Transport	584	796	790	1,298	1,452	1,662	3,467	5,895
Healthcare & other services	766	1,586	1,199	1,695	1,102	1,355	5,247	6,506
Building Technologies	248	252	230	290	-	-	1,020	-
Real estate	113	125	96	162	133	180	496	545
Automotive	289	282	296	337	231	-	1,203	231
EBIT								
Information and communication	25	44	37	11	-	-	116	-
Automation & drives	141	362	258	386	269	471	1,147	1,691
Industrial solutions & services	185	291	239	240	258	356	956	1,383
Power	713	698	54	1,134	920	-869	2,084	989
Transport	56	27	70	73	-139	-93	226	-
Healthcare & other services	-66	47	54	79	-6	57	113	156
Building Technologies	12	21	18	42	-	-	93	-
Real estate	72	85	72	96	88	81	325	382
Automotive	-1	1	-6	73	8	-	67	8
EBIT Margin (%)								
Information and communication	7.1	9.3	7.9	6.1	-	-	7.9	-
Automation & drives	4.4	8.3	7	7.3	6.1	8.5	6.9	7.6
Industrial solutions & services	11.3	10.7	10.1	8.6	11.4	11.7	10	10
Power	7.2	5.9	0.5	9.9	8.5	-7.6	4.8	2
Transport	9.5	3.4	8.8	5.6	-9.6	-5.6	6.5	0
Healthcare & other services	-8.7	2.9	4.5	4.6	-0.6	4.2	2.2	2.4
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	65.6	70
Automotive	-0.4	0.3	-2.1	21.7	3.6	-	5.5	3.5

Source: Company/Motilal Oswal Securities

27.1% YoY to Rs5.5b during 2QFY08, while EBIT margins increased 20bp. Industrial Solutions division witnessed revenue growth of 12.5% YoY to Rs3.1b during 2QFY08, and EBIT margin improvement of 90bp. These three divisions now contribute to ~85% of the standalone revenues.

Target to double revenues in 3 years

Siemens has set a target to double its revenues over the next three years. The mega order intake was lower during last few quarters resulting in a muted order intake growth for the company. To illustrate, the order intake for the power division grew by 11% during FY07 while excluding mega projects, it grew by 24% YoY indicating the lower intake of mega orders. Siemens has been selectively bidding for mega power projects both globally and locally to achieve its target of doubling the revenues over the next 3 years.

Takeaways from Analyst Meet

- Large part of the provisions on the Torrent (Sugen) order have been made, and Siemens India is expected to return to normative margin ranges from 3QFY08 onwards. Also, the management reiterated guidance of doubling revenues by FY10, and expect EBIT margins for Standalone Company at 10% + levels (vs. ~ 8% currently).

- Business sentiment currently is Cautiously Optimistic, with slowdown in terms of project announcements, adverse currency movements, cost pressures, etc.
- Siemens India is in discussions with parent company to expand the product scope in India, and also target new geographies. Most prominent includes opportunities for setting up manufacturing facilities for BTG (power generation) and wind generators, in Siemens India. Also, the decision for BTG manufacturing facility could possibly be setting up by end May 08.

Valuations and views

We have downgraded our revenue and profit estimates for Siemens India, largely to factor in the lower revenue and margins for the power business. We now expect Siemens India to report revenues of Rs91.7b in FY08 (up 18.1% YoY, vs. Rs103.3b earlier) and Rs114.9b in FY09 (up 25.3% YoY, vs. Rs137.5b earlier). We expect Siemens India to report standalone net profit of Rs4.1b in FY08 (down 11.5% YoY, vs. Rs6.2b earlier) and Rs6.1b in FY09 (up 47.7% YoY, vs. Rs8.5b earlier). At CMP of Rs581/sh, the stock trades at PER of 48x FY08 and 32x FY09. We maintain **Neutral** with revised target of Rs528/sh. We value core business earnings at 25x FY09 (Sept year end) PER at Rs452/sh, SISL at 10x FY09 PER at Rs72/sh and Other subsidiaries at Rs4/sh.

SIEMENS SUM OF THE PARTS (RS/SH)

	METHOD	VALUATION MULTIPLE	VALUE (RS M)	VALUE (RS/SH)	RATIONALE
Standalone Business *	FY09 P/E	25	152,246	452	Premium to Industry Average
SISL	FY10 P/E	10	24,318	72	In line with Tier-II IT companies
Other Subsidiaries	FY10 P/E	10	1,448	4	
Target Price			178,012	528	

* September year end

Source: Motilal Oswal Securities

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.

Key investment arguments

- Siemens India is ideally positioned to take advantage of the accelerated investments in both infrastructure and industrial segments. The company has presence in most of the emerging areas in these segments.
- The company has set a target to double its revenue over the next three years.

Recent developments

- Siemens made provisions for estimated losses on Sugan, Torrent power project.

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.
- Increased share of internal work for SISL may lead to continued margin pressures.

Valuation and view

- At CMP of Rs581/sh, the stock trades at PER of 48x FY08 and 32x FY09. We maintain **Neutral** with revised target of Rs528/sh.
- Maintain **Neutral**.

Sector view

- Power sector is expected to witness strong capex, both in generation and transmission.
- Investments in manufacturing industries are likely to continue their momentum as they are operating at their peak utilization rates.
- We remain neutral on the sector.

COMPARATIVE VALUATIONS

		SIEMENS*	ABB#	BHEL
P/E (x)	FY08E	32.8	49.8	32.8
	FY09E	26.4	37.0	24.1
P/BV (x)	FY08E	5.3	15.0	8.9
	FY09E	4.5	11.0	6.9
EV/Sales (x)	FY08E	1.0	4.0	4.4
	FY09E	0.8	3.0	3.2
EV/EBIDTA (x)	FY08E	15.6	32.6	20.9
	FY09E	10.3	23.9	14.8

December Y/E; * September Y/E

SHAREHOLDING PATTERN (%)

	MAR-08	DEC-07	MAR-07
Promoter	55.2	55.2	55.2
Domestic Inst	18.3	19.1	18.2
Foreign	5.9	7.5	8.7
Others	20.6	18.2	18.0

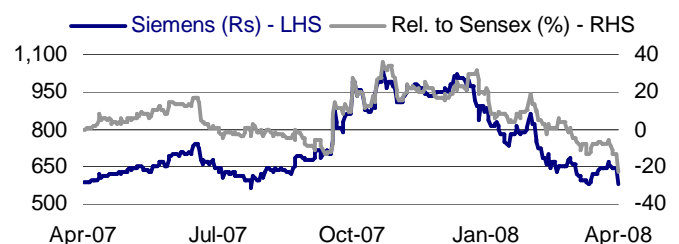
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	17.7	21.5	-17.6
FY09	22.0	27.6	-20.4

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
581	528	-	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(RS MILLION)					
Y/E SEPTEMBER	2006	2007	2008E	2009E	2010E
Total Revenues	45,360	77,660	91,703	114,925	144,894
Change (%)	62.9	71.2	18.1	25.3	26.1
Raw Materials	34,639	62,667	74,004	91,940	115,915
Staff Cost	2,829	4,045	6,341	7,316	8,464
SGA Expenses	3,888	3,534	5,476	6,867	8,662
EBITDA	4,004	7,415	5,881	8,801	11,853
% of Total Revenues	8.8	9.5	6.4	7.7	8.2
Depreciation	442	492	591	709	851
Other Income	1,457	1,036	882	1,022	1,186
EO Items (net)	95	783	1,246	0	0
PBT	5,113	8,742	7,419	9,115	12,188
Tax	1,454	2,777	2,448	3,008	4,022
Rate (%)	28.4	31.8	33.0	33.0	33.0
PAT	3,659	5,965	4,970	6,107	8,166
Adjusted PAT	3,592	4,671	4,136	6,107	8,166
Change (%)	45.8	30.0	-11.5	47.7	33.7
Consolidated PAT	3,974	6,928	5,970	7,411	9,877
Con. Adjusted PAT	3,974	5,369	5,970	7,411	9,877
Change (%)	31.9	35.1	11.2	24.1	33.3

BALANCE SHEET					
(RS MILLION)					
Y/E SEPTEMBER	2006	2007	2008E	2009E	2010E
Share Capital	337	337	337	337	337
Reserves	10,534	15,572	18,206	21,200	26,251
Net Worth	10,871	15,909	18,544	21,537	26,589
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	18,310	21,304	26,355
Gross Fixed Assets	6,473	8,701	9,606	11,257	13,271
Less: Depreciation	3,852	4,064	4,654	5,363	6,214
Net Fixed Assets	2,621	4,637	4,951	5,894	7,058
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	43,354	47,130	53,046
Inventory	4,842	7,491	7,963	8,987	10,203
Debtors	11,098	23,811	23,907	25,481	27,322
Cash & Bank Balance	9,394	4,636	6,492	7,420	10,018
Loans & Advances	4,168	4,754	4,992	5,241	5,504
Current Liab. & Prov.	27,690	35,287	35,171	36,896	38,924
Creditors	16,924	21,515	21,602	23,025	24,687
Other Liabilities	7,351	8,489	8,022	8,047	8,121
Provisions	3,415	5,283	5,548	5,825	6,116
Net Current Assets	1,812	5,405	8,183	10,234	14,122
Application of Funds	10,614	15,651	18,310	21,304	26,355

E: MOST Estimates

RATIOS					
Y/E SEPTEMBER	2006	2007	2008E	2009E	2010E
Basic (Rs)					
EPS	10.7	13.9	12.3	18.1	24.2
Growth (%)	45.8	30.0	-11.5	47.7	33.7
Consolidated EPA	11.8	15.9	17.7	22.0	29.3
Cash EPS	12.0	15.3	14.0	20.2	26.7
Book Value	64.5	94.4	110.0	127.8	157.7
DPS	19	8.0	10.0	10.0	10.0
Payout (incl. Div. Tax.)	22.5	54.9	61.7	51.1	38.4
Valuation (x)					
P/E		41.9	47.4	32.1	24.0
Cash P/E		15.3	14.0	20.2	26.7
EV/EBITDA		12.6	15.6	10.3	7.4
EV/Sales		12	10	0.8	0.6
Price/Book Value		6.2	5.3	4.5	3.7
Dividend Yield (%)		14	17	17	17
Profitability Ratios (%)					
RoE	42.6	40.1	34.7	37.0	41.0
RoCE	62.8	69.1	51.9	55.9	62.6
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	5.0	5.4	5.5
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	8,813	11,068	14,920
Add: Depreciation	1,260	1,403	1,685	1,905	2,189
Interest	4	4	4	4	4
Less: Direct taxes paid	1,955	3,007	2,843	3,656	5,043
(Inc)/Dec in WC	4,770	-8,351	-923	-1,122	-1,291
CF from Operations	9,822	-880	6,736	8,198	10,780
EO Income	146	787	0	0	0
CF from operations incl	9,968	-93	6,736	8,198	10,780
(Inc)/dec in FA	-3,085	-2,811	-1,566	-2,847	-3,353
(Pur)/Sale of Investments	-1,337	-36	0	0	0
CF from Investments	-4,422	-2,847	-1,566	-2,847	-3,353
(Inc)/Dec in Networth	-142	1,060	349	-630	-1,037
(Inc)/Dec in Debt	-6	-5	25	0	0
Less: Interest Paid	4	4	4	4	4
Dividend Paid	895	2,947	3,684	3,788	3,788
CF from Fin. Activity	-1,047	-1,896	-3,315	-4,422	-4,829
Inc/Dec of Cash	4,499	-4,836	1,856	928	2,598
Add: Beginning Balance	4,855	9,394	4,636	6,492	7,420
Closing Balance	9,394	4,636	6,492	7,420	10,018

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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