

RESULT UPDATE

Siemens

Maintain BUY

Price: Rs. 1,063

BSE Index: 13928

24th April 2007

Share Data

Reuters code	SIEM.BO		
Bloomberg code	SIEM IN		
Market cap. (US\$ mn)	4,289		
6m avg. daily turnover (US\$ mn)	27.1		
Issued shares (mn)	169		
Performance (%)	1m	3m	12m
Absolute	(2)	(7)	(9)
Relative	(6)	(6)	(22)

Valuation Ratios

Year to 30 Sep.	FY07E	FY08E
EPS (Rs.)	37.4	52.5
+/- (%)	58.8	40.3
PER (x)	28.4	20.2
Dividend/Yield (%)	0.3	0.3
EV/Sales (x)	2.1	1.7
EV/EBITDA (x)	20.5	14.5

Major shareholders (%)

Promoters	55
FII's	12
MF's	8
Institutions	8
Public & Others	18

2QFY07 Results

Siemens India has posted good results. While revenues went up by 91%, EBITDA grew by 38%, better than expectations, despite high base in same quarter last year. Net profit was subdued as SISL, the company's 100% subsidiary, did not declare interim dividend during the quarter (Rs. 418 mn in same quarter last year). We see margins improving in future, as project sales sees improved margins and new transformer factory is commissioned. As the company continues to pursue its investment-led growth strategy, we expect the stock to outperform in the long-term.

Highlights

- For the quarter, Siemens India posted a revenues growth of 91%, EBITDA growth of 38% while net profit degrew by 8.3%. It should be noted that EBITDA margin in 2QFY06 was abnormally high due to certain non-recurring operating income (in line with our expectations). In absolute terms, Siemens earned operating profit of Rs. 1.67 bn during the quarter, which is highly impressive if seen in light of historical performance. **We expect margins to improve with better profitability on project sales and commissioning of transformer plant.**
- All business segment posted healthy growth in revenues, with Power Systems & Industrial Solutions and Services posting a growth of 150% and 123%, respectively, while Automation & Drives, Building Technologies & Real Estate segment posted a sales growth of 37%, 51% and 22%, respectively. For the first half, the company has posted revenues growth of 91%, EBITDA growth of 45% and profit growth of 24%.

Financial highlights

(Rs. mn)	2QFY06	2QFY07	YoY (%)	1HFY06	1HFY07	YoY (%)
Net Sales	11,150	21,292	91.0	19,661	37,561	91.0
EBITDA	1,214	1,677	38.2	2,004	2,909	45.1
EBITDA Margin (%)	10.7	7.9	-	10.1	7.7	-
Other Income	419	57	(86.4)	428.1	208.8	(51.2)
Interest	79	105	33.0	133.1	230.7	73.4
Depreciation	81	109	34.8	230.2	211.5	(8.1)
Profit before tax	1,630	1,730	6.1	2335	3137	34.3
Tax	452	650	43.7	666.8	1,075.3	61.3
PAT Reported	1,178	1,081	(8.3)	1,668	2,061	23.5
PAT margin (%)	10.4	5.1	-	8.4	5.5	-
EPS (Rs.)	7.0	6.4	(8.3)	9.9	12.2	23.5

- New order intake continues to grow at an impressive pace. New order intake for the quarter grew by 22% (to Rs. 19.5 bn). For the first half, the order intake grew by 23% to Rs. 70.8 bn. Order backlog is Rs. 108.8 bn, up by 41% since the beginning of the company's fiscal year (September 2006).
- We believe that SISL is doing well and lower 2Q profit will not have any adverse impact on consolidated earnings.
- Siemens is continuing its investment led-strategy. It is acquiring 77% stake in Chennai-based IMetrex Technologies Limited. IMetrex is a leading provider of products and solutions in the areas of electronic security, safety and building automation systems. Besides India, the company also has operations in Ireland, UK, Singapore and Hong Kong. With this acquisition, Siemens will consolidate its building technologies business. IMetrex has a turnover of Rs. 1,610 mn and employee strength of 620. We have not included contribution from IMetrex in our estimates.
- We believe that Siemens India is following the structuring strategy adopted by Siemens AG. Siemens AG has opted to sell unprofitable businesses (such as telecom, auto electrical), while acquiring strategically fit businesses (such as VA Tech). We believe that recent restructuring by Siemens India (selling of auto component businesses, acquisition of IMetrex) is value additive. We believe that consolidation of core businesses of Siemens, including software, should be seen positively.

Segmental performance

Revenue (Rs. mn)	2QFY06	2QFY07	YoY (%)	1HFY06	1HFY07	YoY (%)
Information and comm.	367	469	27.6	721	821	13.8
Automation and drives	3,211	4,385	36.5	5,474	7,549	37.9
Ind. solutions and services	1,215	2,713	123.2	2,172	4,351	100.4
Power	4,743	11,867	150.2	8,239	21,755	164.1
Transport	630	796	26.3	1,256	1,380	9.8
Healthcare and other services	997	1,586	59.1	1,758	2,352	33.8
Building Tech	167	252	50.9	327	500	52.9
Automotive	304	282	–	620	571	–
Others (Real Estate)	102	125	21.9	193	238	23.4
Total	11,739	22,474	91.5	20,760	39,516	90.3
Less: Inter-segment Revenue	589	1,182	–	1,099	1,954	–
Net	11,150	21,292	91.0	19,661	37,562	91.0
PBIT (Rs. mn)						
Information and comm.	46	44	(5.6)	82	69	(16.6)
Automation and drives	348	362	4.0	490	503	2.6
Ind. solutions and services	179	291	62.6	268	476	77.8
Power	402	698	73.8	659	1,411	114.0
Transport	71	27	(61.4)	144	83	(42.1)
Healthcare and other services	(6)	47	(833.9)	3	(19)	(780.2)
Building Tech	13	21	60.2	22	33	46.1
Automotive	20	1	–	(4)	0	–
Others (Real Estate)	65	85	31.6	115	157	36.0
Total	1,136	1,575	38.6	1,780	2,712	52.4
Add: Net Interest Income	79	105	–	133	231	–
Unallocable	415	51	–	422	195	–
Total PBT	1,630	1,730	6.1	2,335	3,137	34.3
PBIT Margin (%)						
Information and comm.	12.5	9.3	–	11.4	8.4	–
Automation and drives	10.8	8.3	–	9.0	6.7	–
Ind. solutions and services	14.7	10.7	–	12.3	10.9	–
Power	8.5	5.9	–	8.0	6.5	–
Transport	11.2	3.4	–	11.4	6.0	–
Healthcare and other services	(0.6)	2.9	–	0.2	-0.8	–
Building Tech	7.7	8.2	–	6.8	6.5	–
Automotive	6.6	0.3	–	-0.6	0.0	–
Others (Real Estate)	63.1	68.1	–	59.9	66.0	–
Total	9.7	7.0	–	8.6	6.9	–

Outlook

Earnings outlook

Revenues and earnings growth

- **Standalone:** We expect the company's revenues to post a CAGR of 53% during the period FY06-08E. Earnings are expected to post a CAGR of 47% over the same period.
- **SISL:** SISL is likely to post accelerated earnings growth in the next three years on the back of growing outsourcing of software services by parent. This, in turn, will substantially improve outlook for Siemens India's consolidated earnings. We expect the company's revenues to post a CAGR of 35% during the period FY06-08E. Earnings are expected to post a CAGR 26% over the same period.
- **Consolidation:** We expect the company's revenues to post a CAGR of 42% during the period FY06-08E. Earnings are expected to post a CAGR of 50% over the same period. SISL will account nearly 14% of revenues and 27% of profit in FY07.

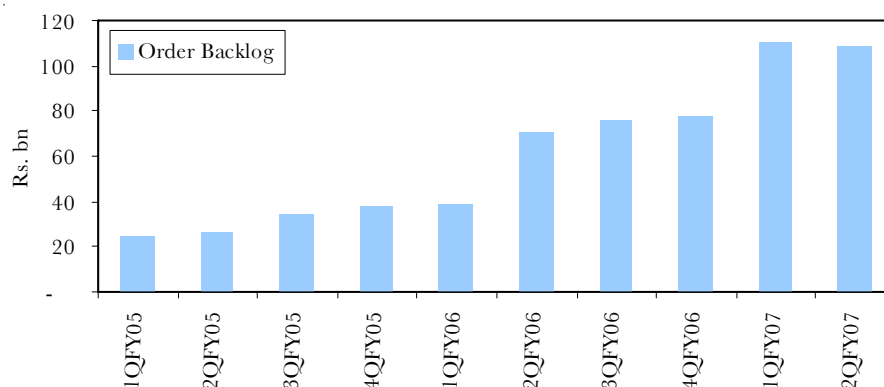
Earnings review

(Rs. mn)	Revenues		EBITDA		PAT	
	FY07E	FY08E	FY07E	FY08E	FY07E	FY08E
Siemens	80,040	106,025	7,057	10,600	5,611	7,919
SISL	11,621	15,688	2,354	3,121	1,723	2,147
Consol.	91,758	122,365	9,516	14,027	6,307	8,878
EPS (Rs.)	–	–	–	–	37.4	52.5

High earnings visibility

The order intake for the first half of 2007 grew by 23% to Rs. 70.8 bn as compared to Rs. 57.5 bn in the corresponding period of the previous year. During the first half, the company bagged India's largest order from Qatar worth Rs. 36 bn in power transmission & distribution segment. Siemens's standalone order book currently stands at around Rs. 109 bn, implying 1.4 x FY07 sales. The order book includes around Rs. 60 bn from Qatar, all of which will be executed in the next 24 months. These projects have good (around 7%) EBIT margins, which ensures healthy accretion to profits.

Order backlog over the quarters

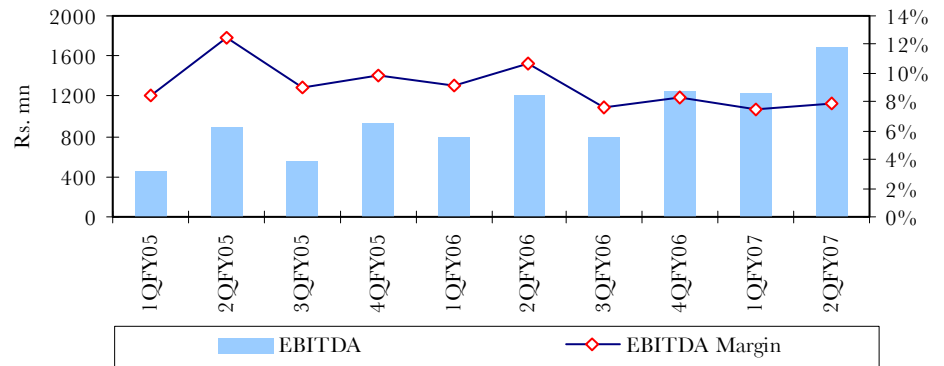


Source: Company

Margins

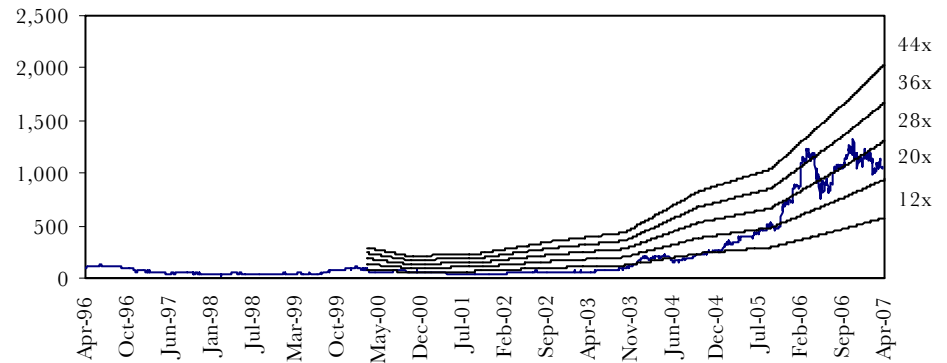
EBITDA margin, during the quarter, contracted by 280 basis points to 7.9% as compared to 10.7% in the corresponding period of the previous year. It should be noted that EBITDA margin in 2QFY06 was abnormally high due to certain non-recurring operating income (in line with our expectations). We expect margins to improve with better profitability on project sales and commissioning of transformer plant.

Quarterly trend in margins



Source: Company

PER Band



Source: B&K Research

Valuations

Sum-of-the-parts valuation

	Target EV/EBITDA FY08E (x)	EBITDA FY08E (Rs. mn)	Target EV (Rs. mn)
SL	17	10,600	179,139
SISL	14	3,121	43,382
BPO	14	228	3,197
Turbo	12	20	245
Total		13,970	225,963
Cash			11,618
Shares			169
Mkt. cap			237,581
Target price (Rs.)			1,410

Our target price of Rs. 1,410 is based on sum-of-part valuation method. At the target price, Siemens will trade at 26.8x FY08E earnings, 18.7x FY08E EV/EBITDA and 2.1x FY08E EV/Sales.

With the growing order book, we see strong possibility of upsides to our earnings estimates. We believe that the stock will continue to command premium valuations given sustainable earnings, growth visibility and continuing momentum in key business segments. Outsourcing by parent, for software services and engineering products/projects, will continue to be a key long-term growth driver for the company. We maintain BUY on the stock.

Income Statement

Yr. ended 30 Sep. (Rs. m)	FY05	FY06	FY07E	FY08E
Net sales	36,379	60,323	91,258	121,740
Growth (%)	62.0	65.8	51.3	33.4
Operating expenses	(31,736)	(54,232)	(82,242)	(108,339)
Operating profit	4,643	6,090	9,016	13,402
Other operating income	75	327	500	625
EBITDA	4,718	6,417	9,516	14,027
Growth (%)	66.6	36.0	48.3	47.4
Depreciation	(684)	(1,260)	(1,022)	(1,418)
Other income	522	824	895	876
EBIT	4,556	5,981	9,389	13,484
Interest paid	(18)	(43)		
Pre-tax profit (before non-recurring items)	4,538	5,938	9,389	13,484
Pre-tax profit (after non-recurring items)	4,538	5,938	9,389	13,484
Tax (current + deferred)	(1,428)	(1,964)	(3,082)	(4,607)
Net profit	3,110	3,974	6,307	8,878
Adjusted net profit	3,101	3,971	6,307	8,878
Growth (%)	76.7	28.0	58.8	40.8
Minority interests	(9)	(4)	-	-
Net income	3,101	3,971	6,307	8,878

Balance Sheet

Yr. ended 30 Sep. (Rs. m)	FY05	FY06	FY07E	FY08E
Current assets	24,041	36,777	50,933	69,452
Investments	847	2,138	2,138	2,138
Net fixed assets	4,743	6,677	7,248	9,602
Other non-current assets	624	845	510	162
Total assets	30,255	46,437	60,828	81,354
Current liabilities	19,848	33,748	42,871	55,427
Total debt	961	40	30	31
Other non-current liabilities	196	216	180	180
Total liabilities	21,005	34,003	43,081	55,637
Share capital	331	337	337	338
Reserves & surplus	8,847	12,056	17,411	25,378
Shareholders' funds	9,179	12,393	17,748	25,716
Minorities interests	72	40	-	-
Total equity & liabilities	30,255	46,437	60,828	81,354
Capital employed	10,407	12,689	17,958	25,927

Cash Flow Statement

Yr. ended 30 Sep. (Rs. m)	FY05	FY06	FY07E	FY08E
Pre-tax profit	4,538	5,938	9,389	13,484
Depreciation	851	1,093	1,022	1,418
Chg in working capital	(461)	5,961	(1,128)	1,836
Total tax paid	(1,562)	(2,443)	(2,663)	(4,258)
Other operating activities	(263)	103	(72)	1
Cash flow from oper. (a)	3,103	10,652	6,548	12,482
Capital expenditure	(2,934)	(3,027)	(1,592)	(3,773)
Chg in investments	(439)	(1,291)	-	-
Cash flow from inv. (b)	(3,373)	(4,318)	(1,592)	(3,773)
Free cash flow (a+b)	(270)	6,334	4,955	8,709
Equity raised/(repaid)	0	(36)	(0)	1
Chg in minorities	63	(36)	(40)	
Debt raised/(repaid)	932	(921)	(10)	1
Dividend (incl. tax)	(390)	(542)	(873)	(911)
Cash flow from fin. (c)	605	(1,462)	(923)	(909)
Net chg in cash (a+b+c)	335	4,873	4,032	7,800

Key Ratios

Yr. ended 30 Sep. (%)	FY05	FY06	FY07E	FY08E
EPS (Rs.)	18.7	23.6	37.4	52.5
EPS growth	76.7	25.9	58.8	40.3
EBITDA margin	12.9	10.6	10.4	11.5
EBIT margin	12.5	9.9	10.3	11.1
ROCE	51.7	51.8	61.3	61.5
Net debt/Equity	(62.5)	(93.1)	(88.0)	(91.1)

Valuations

Yr. ended 30 Sep. (x)	FY05	FY06	FY07E	FY08E
PER	56.8	45.1	28.4	20.2
PCE	46.4	34.2	24.4	17.4
Price/Book	19.2	14.5	10.1	7.0
Yield (%)	0.3	0.3	0.3	0.3
EV/Net sales	5.0	3.2	2.1	1.7
EV/EBITDA	38.6	29.7	20.5	14.5

Du Pont Analysis – ROE

Yr. ended 30 Sep. (x)	FY05	FY06	FY07E	FY08E
Net margin (%)	8.5	6.6	6.9	7.3
Asset turnover (x)	1.5	1.6	1.7	1.7
Leverage factor (x)	3.0	3.5	3.6	3.3
Return on equity (%)	38.2	36.6	41.8	40.9

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