

RESULTS REVIEW

Siemens India Limited

Hold

Share Data

Market Cap	Rs. 330.2 bn
Price	Rs. 1,958.3
BSE Sensex	20,686.89
Reuters	SIEM.BO
Bloomberg	SIEM IN
Avg. Volume (52 Week)	0.1 mn
52-Week High/Low	Rs. 2,250 / 968
Shares Outstanding	168.6 mn

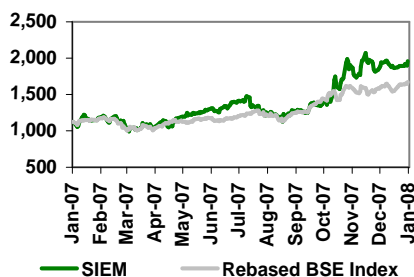
Valuation Ratios (Consolidated)

Year to 30 Sept	2008E	2009E
EPS (Rs.)	46.7	61.8
+/- (%)	40.9%	32.3%
PER (x)	41.9x	31.7x
EV/ Sales (x)	2.7x	2.0x
EV/ EBITDA (x)	26.8x	20.4x

Shareholding Pattern (%)

Promoters	55
FII's	8
Institutions	19
Public & Others	17

Relative Performance



Needs to improve order intake

Siemens India Limited (SIEM) FY07 consolidated results were largely inline with our expectations. EBITDA and net profit margin came slightly below our estimate by 71 bps and 29 bps, respectively. During the quarter, revenue grew by 46.7% yoy to Rs. 21.9 bn due to the sharp rise in the exports and commencement of revenue realization from the execution of mega projects. The higher revenue realization with the support of higher productivity and the appreciating rupee resulted in a whopping increase of 73% yoy in EBITDA to Rs. 2.2 bn. Despite strong growth in EBITDA, net profit grew by a mere 26.6% yoy to Rs. 1.7 bn while margin compressed by 126 bps to 7.9%.

Increased emphasis of the parent company, Siemens AG, on Indian operations is expected to enhance and widen SIEM's product portfolio in the Indian market. Further, it will increase Siemens India Limited's importance as an outsourcing hub and increase exports. Despite better than anticipated performance during the quarter, we have not upgraded our FY08 operating margin estimates due to concerns regarding reduced order intake traction and Siemens AG's restructuring activity related to the sale and transfer of value accretive businesses.

The stock is currently trading at a P/E of 41.9x for FY08E and 31.7x for FY09E. Considering the valuations and the recent run up in the stock price, we believe that at the current levels the valuation looks stretched. Hence, we maintain our Hold rating.

Key Figures (Standalone)

Quarterly data **Q4'06** **Q3'07** **Q4'07** **YoY%** **QoQ%**
(Figures in Rs. mn, except per share data)

Net Sales	14,920	17,823	21,885	46.7%	22.8%
EBITDA	1,253	910	2,167	73.0%	138.2%
Adj. Net Profit	1,368	818	1,731	26.6%	111.6%

Margins(%)

EBITDA	8.4%	5.1%	9.9%
NPM	9.2%	4.6%	7.9%

Per Share Data (Rs.)

Adj. EPS	8.1	4.9	10.3	26.6%	111.7%
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Result Highlights

During the quarter ended Sep 07, net sales grew by 46.7% yoy to Rs. 21.9 bn due to pick up in the revenue traction from the execution of mega projects. Power segment registered a sales growth of 64.7% yoy. Besides registering robust growth in sales, Power segment has also enlarged its contribution in the total sales to 52.2%. The Automation & drives business grew by 36.7% yoy and the Industrial solutions & services segment rose by 42.4% yoy.

Cost of raw material consumption reduced by 160 bps yoy

EBITDA registered a massive increase of 73% yoy to Rs. 2.2 bn and margins improved by 151 bps to 9.9%. EBITDA is adjusted for forex income of Rs. 1,285 mn. The growth in EBITDA was due to higher revenue realization supported by improvement in productivity and the appreciating rupee.

EBIT margin improvement was supported by reduction in depreciation charge

EBIT went up by 77.5% yoy to stand at Rs. 2 bn and EBIT margin at 9.2% grew by 159 bps. The major contributor to this growth was the Power business which grew by a whopping 285.5% yoy (after adjusting for Rs. 1,285 mn of forex gain) however, the second largest contributor to EBIT - Automation & drives business recorded a decline of 1.4% yoy.

Net profit margin dipped by 126 bps

Despite strong growth in EBITDA, net profit grew merely by 26.6% yoy to Rs. 1.7 bn while margin compressed by 126 bps to 7.9% on account of lower other income (down 252 bps) and reduced interest income (down 37 bps). The bottom line was adjusted for (1) Rs. 123 mn profit on sale of fixed assets and (2) Rs. 524.2 mn profit on transfer of information and communication business.

Subdued growth of 3.2% yoy in order intake as compared to its peers

On a standalone basis, the Company's unexecuted order value stood at Rs. 94.1 bn (up by 25% yoy) as on 30th Sep 07. However, during the quarter, Siemens registered an order intake of Rs. 12.8 bn, an increase of only 3.2% yoy; whereas, for the year ended Sep 07, new orders jumped by 23.2% yoy to Rs. 101.1 bn from Rs. 82 bn. The major contributor and volume driver was the Power business.

Despite robust macro environment, the Company registered subdued growth of 3.2% yoy in order intake which is lower in comparison to its peers ABB and BHEL who witnessed order intake growth of 37.5% yoy and 28.8% yoy, respectively.

EBIT segmental performance

	Q4'06	Q4'07	Inc/Dec
-Information and communication	28	11	(60.3)%
Margins	8.1%	6.1%	
Contribution to EBIT	2.5%	0.5%	
-Automation & drives	391	386	(1.4)%
Margins	10.1%	7.3%	
Contribution to EBIT	34.6%	18.1%	
-Industrial solutions & services	202	240	18.7%
Margins	10.3%	8.6%	
Contribution to EBIT	17.9%	11.3%	
-Power	294	1,134	285.5%
Margins	4.2%	9.9%	
Contribution to EBIT	26.0%	53.1%	
-Transport	32	73	129.3%
Margins	4.7%	5.6%	
Contribution to EBIT	2.8%	3.4%	
-Healthcare and other services	85	79	(7.5)%
Margins	5.7%	4.6%	
Contribution to EBIT	7.5%	3.7%	
-Building technologies	13	42	239.0%
Margins	4.6%	14.7%	
Contribution to EBIT	1.1%	2.0%	
-Automotive	11	73	567.8%
Margins	3.5%	21.7%	
Contribution to EBIT	1.0%	3.4%	
-Real Estate	74	96	28.9%
Margins	56.2%	59.3%	
Contribution to EBIT	6.6%	4.5%	
Total results	1,131	2,134	88.7%
Margins	7.6%	9.8%	

Source: Company data, Indiabulls research

Key Events

- **Siemens Power Transformer factory at Kalwa goes on stream**
Siemens started its 8th transformer manufacturing factory of 15,000 MVA capacity at Kalwa in Maharashtra on 4th Dec 07, with an investment of Rs. 2 bn. The factory will design and manufacture large

transformers of power rating upto 600 MVA and 800 KV voltage class - which is the maximum voltage established presently in India.

➤ **Siemens signs MoU with RITES for rail wagons**

Siemens inked an MOU with Indian Railways` subsidiary RITES for development and production of rail bogies.

➤ **New orders:**

- Rs. 870 mn order from McNally Bharat Engineers Pvt. Ltd. for supplying electricals for Rashtriya Ispat Nigam Ltd's new Sinter Plant at Vizag.
- Order worth Rs. 3,300 mn from Tata Steel for providing the Power Distribution Network solutions for their Greenfield Steel plant at Kalinganagar, Orissa.

Outlook

Positives:

- Increased emphasis of the parent company, Siemens AG on Indian operations is expected to enhance and widen SIEM's product portfolio in the Indian market. Further, it will increase Siemens India Limited's importance as an outsourcing hub and increase exports.
- To support the tremendous demand of the power and infrastructure sectors, the Company plans to augment its factory capacities by building three new factories in India.

Concerns:

- Diversified presence and sell off of profit making subsidiaries is expected to impact margins in the near term.
- The Company significantly lags behind its peers like ABB and BHEL on the basis of new orders received during the year.
- Any sharp rise in the rupee dollar exchange rate can hurt the financials adversely.

The stock is currently trading at a P/E of 41.9x for FY08E and 31.7x for FY09E. Considering the valuations and the recent run up in the stock price, we believe that at the current levels the valuation looks stretched. Hence, we maintain our Hold rating.

Key risks to the rating are increase in cost of fuel prices, higher competitive pressure, and seasonality attached to rainfall.

Key Figures (Consolidated)

Year to Sep.	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY07-09E)
Net Sales	35,938	59,816	93,786	119,032	159,223	30.3%
EBITDA	3,914	5,652	8,429	11,903	15,604	36.1%
Adj. Net Profit	2,640	3,492	5,588	7,873	10,415	36.5%
Margins(%)						
EBITDA	10.8%	9.4%	9.0%	10.0%	9.8%	
NPM	7.3%	5.8%	6.0%	6.6%	6.5%	
Per Share Data (Rs.)						
Adj. EPS	15.9	20.7	33.1	46.7	61.8	36.5%
PER (x)	32.9x	51.8x	59.1x	41.9x	31.7x	

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