

19 May 2011

Produced by: The Royal Bank of Scotland N.V., (India) Office

Sell

Target price
Rs660.00

Price
Rs850.70

Equity | India | Capital Goods Flashnote

Siemens India Targeting strong growth

Siemens India had an analyst meet to discuss its plans going forward. It indicated that while private sector capex was slowing, pricing in the transmission business is stabilizing. The company is making investments in capacity in India coupled with process improvements to focus on growth and profitability.

- 1H was strong in terms of order inflow. Reported orders for 1H was flat, but if adjusted for the large Qatar order last year was up 30-35%, though Q1 also had a large power plant order from Torrent group.
- It's current order book is Rs154bn with average execution of around 2-3 years. In its current business mix, around 60-70% would be projects and the rest products. The company mentioned that private sector capex and railway orders has started to slowdown
- However it indicates that the pricing in the transmission and distribution business is stabilizing as compared to the volatility seen in the past year.
- Balance sheet has seen cash reducing in the current quarter, as customer advances have gone down and project retentions have gone up impacting working capital
- The company plans to restructure segments further from its current segments of Energy, Industry and Healthcare and plans to add a fourth segment which will focus on infrastructure in cities and comprise of power distribution, mobility and building technologies.
- In the Energy business, the company is in its second phase of capex for steam turbine and compressors and is setting up facilities for overhaul of industrial gas turbines and repair components. It's Gas Insulated Switchgear(GIS), is operational at Kalwa.
- In the Industry segment, the highlight has been the metro orders, with the Rs5.2bn Chennai metro order and Rs1.5bn Kolkata metro order.
- It has a special focus on renewables with long term target of environmental portfolio at 30% of its overall portfolio
- We have a Sell rating on the stock. Stock trades at 26x FY12 earnings.

Key forecasts

	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue (Rsm)	93491	97430	114702	135601	157230
EBITDA (Rsm)	10516	13196	15522	18024	20803
Reported net profit (Rsm)	6896	7578	9678	11532	13486
Normalised net profit (Rsm)	5395	7578	9678	11532	13486
Normalised EPS (Rs)	16.0	22.5	28.7	34.2	40.0
Dividend per share (Rs)	5.00	5.00	5.20	5.20	5.20
Dividend yield (%)	0.59	0.59	0.61	0.61	0.61
Normalised PE (x)	53.2	37.9	29.6	24.9	21.3
EV/EBITDA (x)	26.1	20.5	16.8	14.1	11.8
Price/book value (x)	10.3	8.75	7.08	5.73	4.66
ROIC (%)	89.5	87.7	97.5	144.3	131.3

Post-goodwill amortisation and pre-exceptional items
Accounting standard: Local GAAP
Source: Company data, RBS forecasts

year to Sep, fully diluted

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Important disclosures can be found in the Disclosures Appendix.

Income statement

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	93491	97430	114702	135601	157230
Cost of sales	-69684	-77377	-91698	-109240	-126982
Operating costs	-13292	-6857	-7482	-8336	-9445
EBITDA	10516	13196	15522	18024	20803
DDA & Impairment (ex gw)	-1733	-1687	-1873	-1948	-2074
EBITA	8783	11509	13649	16076	18729
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	8783	11509	13649	16076	18729
Net interest	-73.9	0.00	0.00	0.00	0.00
Associates (pre-tax)	81.7	0.00	0.00	0.00	0.00
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	1501	0.00	0.00	0.00	0.00
Other pre-tax items	673.4	557.2	871.3	958.4	1102
Reported PTP	10965	12066	14520	17035	19831
Taxation	-4110	-4501	-4858	-5521	-6366
Minority interests	41.1	12.1	15.4	18.4	21.5
Exceptionals (post-tax)	0.00	0.00	0.00	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	6896	7578	9678	11532	13486
Normalised Items Excl. GW	1501	0.00	0.00	0.00	0.00
Normalised net profit	5395	7578	9678	11532	13486

Source: Company data, RBS forecasts

year to Sep

Balance sheet

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	14746	18795	29375	35814	43755
Other current assets	55888	60618	64284	75997	88054
Tangible fixed assets	10885	12401	13028	13580	14006
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	1196	1427	3927	6427	8927
Total assets	82715	93242	110614	131818	154743
Short term debt (2)	0.00	0.00	0.00	0.00	0.00
Trade & oth current liab	42049	44682	51987	62313	72698
Long term debt (3)	6.42	2.54	2.54	2.54	2.54
Oth non-current liab	12791	15760	18115	19427	20447
Total liabilities	54846	60445	70105	81742	93147
Total equity (incl min)	27869	32797	40509	50076	61596
Total liab & sh equity	82715	93242	110614	131818	154743
Net debt	-14739	-18792	-29372	-35811	-43753

Source: Company data, RBS forecasts

year ended Sep

Cash flow statement

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	10516	13196	15522	18024	20803
Change in working capital	-4165	872.6	5995	-75.1	-653.3
Net interest (pd) / rec	73.9	0.00	0.00	0.00	0.00
Taxes paid	-3694	-4732	-4858	-5521	-6366
Other oper cash items	-334.6	-767.7	0.00	0.00	0.00
Cash flow from ops (1)	2396	8569	16659	12428	13783
Capex (2)	-1758	-2436	-2500	-2500	-2500
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	2450	0.11	-2500	-2500	-2500
Cash flow from invest (3)	692.2	-2436	-5000	-5000	-5000
Incr / (decr) in equity	0.04	0.00	0.00	0.00	0.00
Incr / (decr) in debt	-105.9	-3.88	0.00	0.00	0.00
Ordinary dividend paid	-1972	-1966	-1966	-1966	-1966
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	514.5	-114.7	886.7	976.8	1124
Cash flow from fin (5)	-1564	-2084	-1079	-989.0	-842.1
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Incr/(decr) cash (1+3+5+6)	1524	4049	10580	6439	7941
Equity FCF (1+2+4)	637.5	6133	14159	9928	11283

Lines in bold can be derived from the immediately preceding lines.
Source: Company data, RBS forecasts

year to Sep

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and, except as follows, only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For UK-based Investment Funds research, the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. For research on Australian listed property trusts (LPT) or real estate investment trusts (REIT), the recommendation is based upon total return, ie, the estimated total return of capital gain, dividends and distributions received for any particular stock over the investment horizon.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Distribution of recommendations

The tables below show the distribution of recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where there is an investment banking relationship. These numbers include recommendations produced by third parties with which RBS has joint ventures or strategic alliances.

Long term recommendations (as at 19 May 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	787 (13)	513 (3)
Hold	409 (7)	223 (2)
Sell	93 (1)	60 (0)
Total (IB%)	1289 (10)	796 (2)

Source: RBS

Trading recommendations (as at 19 May 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	3 (0)	3 (0)
Trading Sell	2 (0)	2 (0)
Total (IB%)	5 (0)	5 (0)

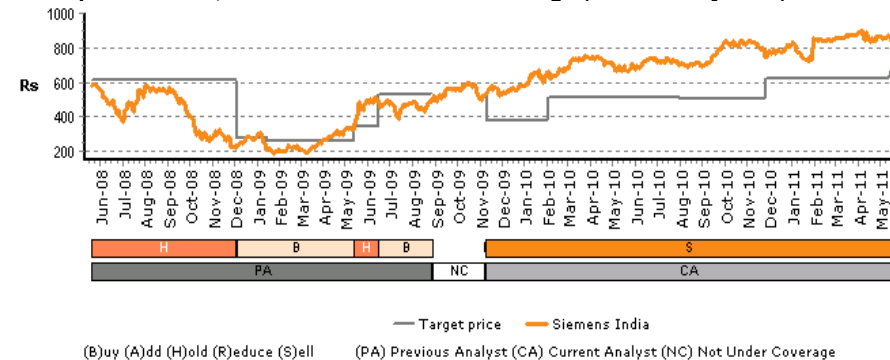
Source: RBS

Valuation and risks to target price

Siemens India (RIC: SIEM.BO, Rec: Sell, CP: Rs850.70, TP: Rs660.00): Key upside risks to our DCF-based target price are better-than-expected order inflows resulting in earnings upgrades and a quicker-than-expected revival in the company's short-cycle businesses.

Siemens India coverage data (SIEM.BO, SIEM IN)

Stock performance, recommendations and coverage (as at 19 May 2011)



(B)uy (A)dd (H)old (R)educe (S)ell (PA) Previous Analyst (CA) Current Analyst (NC) Not Under Coverage

Vinod Chari started covering this stock on 9 Nov 09. Moved to new recommendation structure between 1 November 2005 and 31 January 2006. Source: RBS

Trading recommendation history

Date	Rec	Analyst
n/a	n/a	n/a

Source: RBS

Price perf (at Close 19 May 2011)

	(1M)	(3M)	(12M)
Price (Rs)	830.4	845.1	674.5
Absolute (%)	2.4	0.7	26.1
Rel market (%)	8.0	1.1	14.1
Rel sector (%)	2.9	11.3	22.1

Source: Bloomberg

Market: Sensex

Sector: Electrical Components & Equipment

Regulatory disclosures

None

Global disclaimer

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