

Key highlights

Strong revenue growth on the back of high order backlog

Siemens reported revenue of INR25.4bn, a growth of 36% YoY on the back of higher order backlog of INR132bn at the end of Sep 2010. For FY10, revenues had grown by 11%. Our estimates for FY11e and FY12e revenues stand at INR121.5bn and INR149.2bn, a growth of 29% and 22%, respectively. With few large orders in place, we believe the same is achievable.

Margins - Positively surprise

EBITDA margin for the quarter stood at 14.3% which was a positive surprise. The margin was in fact higher compared to FY10 and FY09 by 50bps and 120bps. We have built in margin estimates at 13.4% and 13.1% for FY11e and FY12e, respectively. The reported PAT stood at INR24.4bn for the quarter, a mild growth over INR23.8bn in 1QFY10. After adjusting for one time gain (on completion of some large projects during that quarter) amounting to INR7.6bn, the adjusted PAT growth would have been 26%. This one time gain had impacted the EBITDA margin in 1QFY10, which stood at ~19.5%.

Order book at all time high

The order book stands at all time high of INR151.3bn at the end of the quarter. The order book to sales ratio registered at 1.5x. The ratio is on the higher side as order book to sales ratio for the company has hovered in the range of 1.1-1.3x in the last two years. We believe this will positively impact revenues in FY11e and FY12e. The order inflow for the quarter marked at INR39.8bn, higher by ~30% over last year's average quarterly intake of INR31bn.

Valuation and outlook

Strong outlook, reiterate BUY

We maintain our positive view on the stock considering the strong order backlog and inflow. We have cut our PE exit multiple for Industrials (20x from earlier 25x for L&T and BHEL). In line with the same, we have assigned 25x (~20% premium). Our FY12e target now stands at INR861 (18% upside) and our Sep'12 target stands at INR903 (24% upside).

Quarterly financials

INRm (Sept. end)	1QFY11	1QFY10	Chg (%)	4QFY10
Revenue	25,381	18,666	36	30,610
Expense	21,754	15,034	45	26,591
EBITDA	3,628	3,632	0	4,019
Interest expense	(290)	(157)	84	(215)
Depreciation	286	212	35	316
PBT	3,632	3,578	2	3,918
Tax	1,214	1,214	0	1,382
Reported PAT	2,418	2,364	2	2,536

Source: Company, Antique

Current Reco	: BUY
Previous Reco	: BUY
CMP	: INR727
Target Price	: INR861
Potential Return	: 18%

Market data

Sector	:	Industrials
Market Cap (INRbn)	:	245.5
Market Cap (USDbn)	:	5.4
O/S Shares	:	337
Free Float (m)	:	105
52-wk HI/LO (INR)	:	857/596
Avg Daily Vol ('000)	:	87
Bloomberg	:	SIEM IN
Reuters	:	SIEM.BO

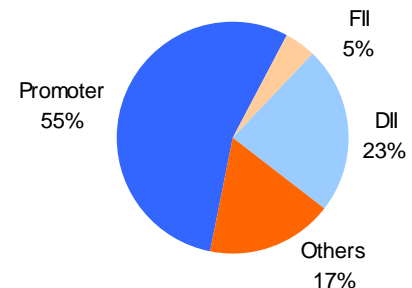
Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	(10)	(11)	1	13
Relative	0	(3)	(2)	1

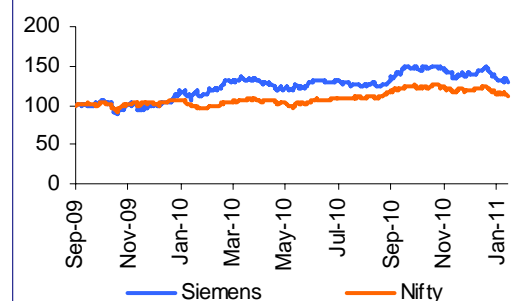
Source: Bloomberg

Shareholding pattern



Source: BSE

Price performance vs Nifty



Source: Bloomberg

Abhineet Anand
+91 22 4031 3442
abhineet@antiquelimited.com

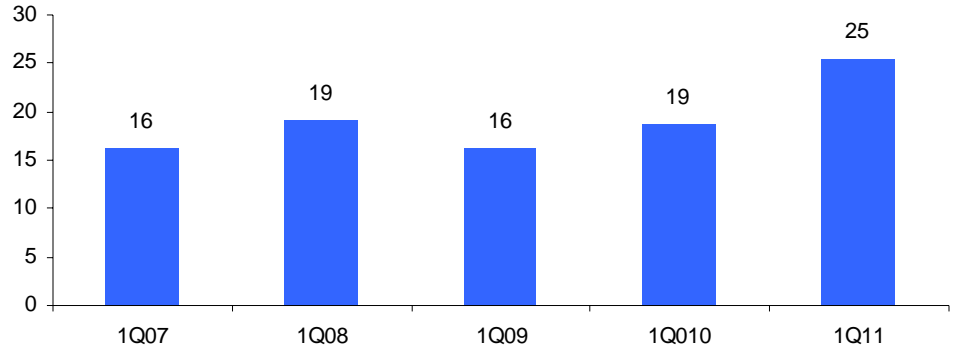
Mohit Kumar
+91 22 4031 3418
mohit.kumar@antiquelimited.com

Mohit Gulati
+91 22 4031 3429
mohit.gulati@antiquelimited.com

Strong revenue growth on the back of high order backlog

Siemens reported revenue of INR25.4bn, a growth of 36% YoY on the back of higher order backlog of INR132bn at the end of September 2010. The chart below highlights the trend in 1Q revenue numbers.

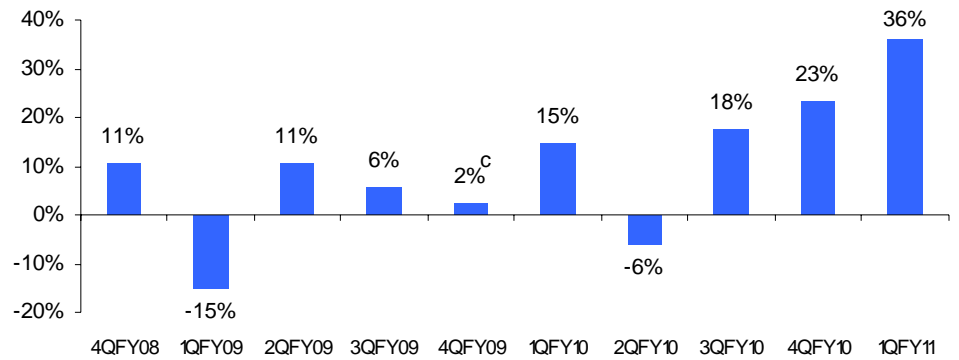
Quarterly Sales (INRbn)



Source: Company, Antique

With the current growth in revenues (consecutive three strong quarters), we believe the company is poised to show strong growth for the full year as well.

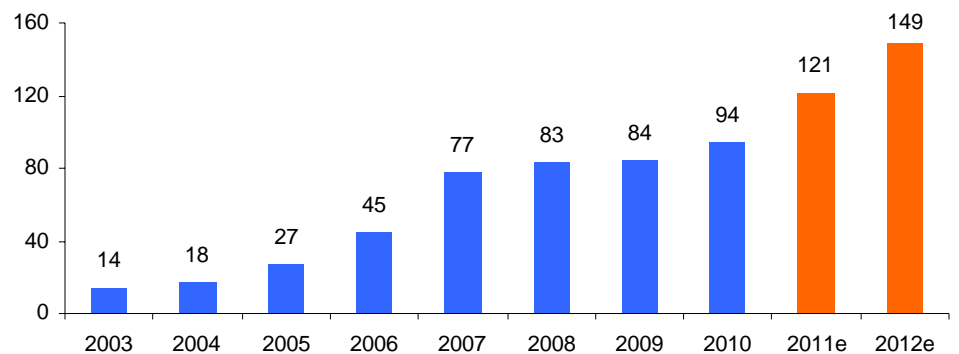
Sales growth (%)



Source: Company, Antique

Our estimates for FY11e and FY12e revenues stand at INR121.5bn and INR149.2bn, a growth of 29% and 22%, respectively.

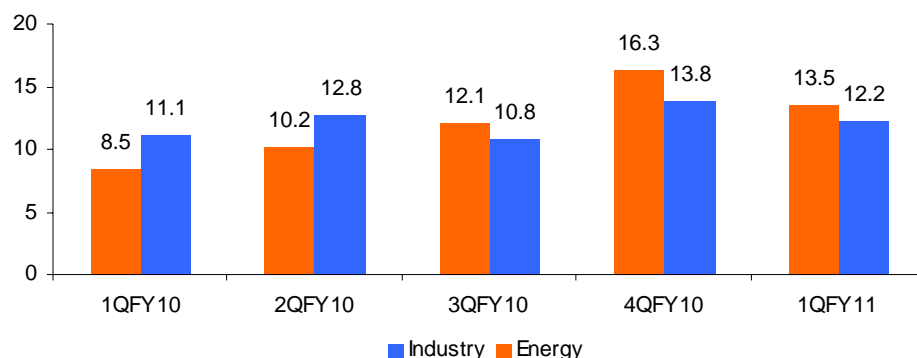
Yearly Sales (INRbn)



Source: Company, Antique

Strong revenue growth in the last few quarters has been mainly driven by the Energy segment as shown in the below chart. Revenue from this segment has grown from INR8.5bn to INR13.5bn (INR16.3bn in 4QFY10).

Energy and industry revenue (INRbn)



Source: Company, Antique

Margins - Positively surprise

EBITDA margin for the quarter stood at 14.3% which was a positive surprise. The raw material cost was 71.5% of revenue (250bps lower compared to 74% for FY10).

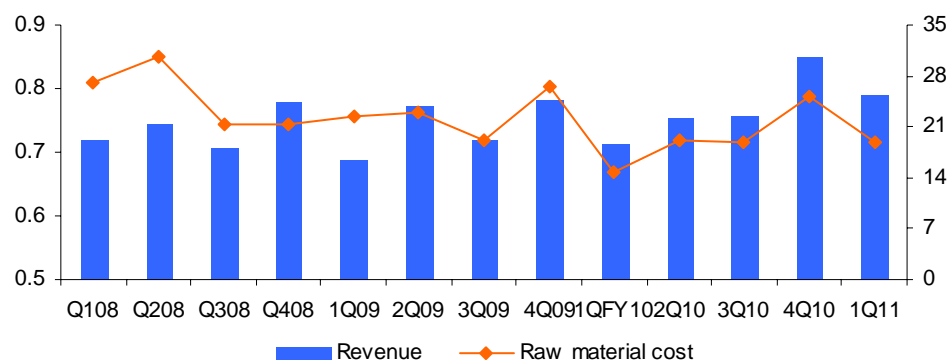
Cost as % of net revenues

As % of net revenues	1QFY11	1QFY10	bps	4QFY10
Material cost	71.5	66.7	(486)	78.6
Employee cost	8.0	6.9	(113)	5.9
Other expenses	6.1	6.9	82	2.4
EBITDA margin	14.3	19.5	517	13.1

Source: Company, Antique

The chart below shows the material cost as a percent of revenues over the last three years.

Revenue and material cost movement

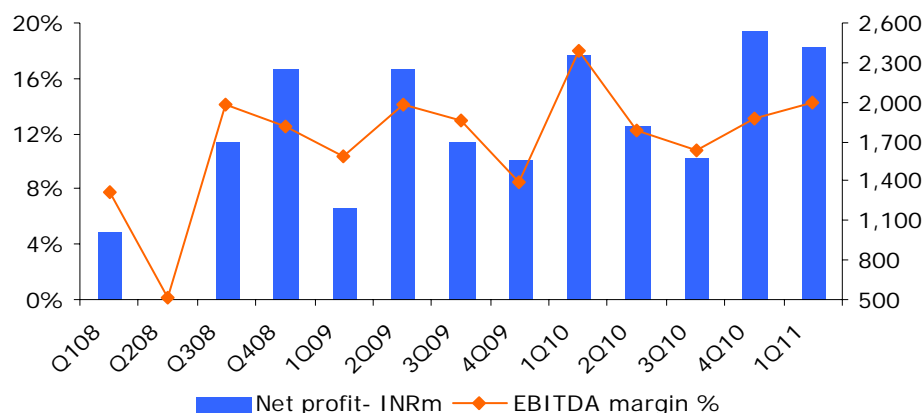


Source: Company, Antique

While on a YoY basis, margins declined, which we believe has been on account of one time gain (on completion of some large project during that quarter) amounting to INR7.6bn in 1QFY10. The margin was in fact higher compared to FY10 and FY09 by 50bps and 120bps.

The chart below shows the trend in the quarterly EBITDA margin and profit.

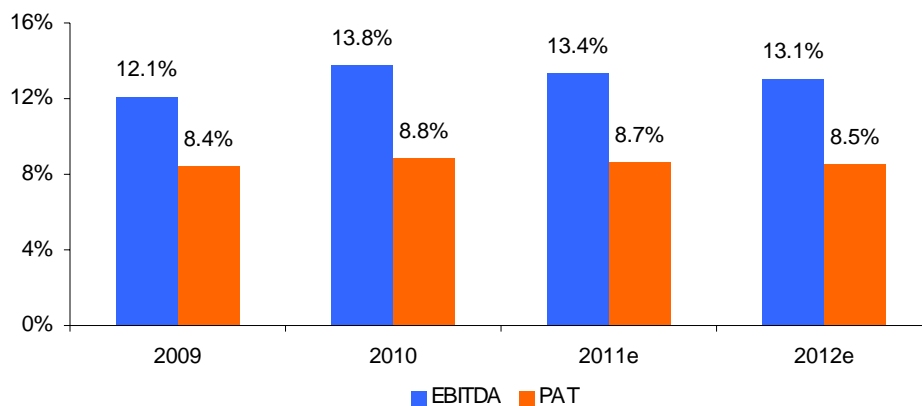
Profit and EBITDA margin



Source: Company, Antique

We have built in estimates of 13.4% and 13.1% margin for FY11e and FY12e. The reported PAT stood at INR24.4bn for the quarter, a mild growth over INR23.8bn in 1QFY10.

Margin (EBITDA and PAT)



Source: Company, Antique

Segment-wise revenue and PBIT margin

Revenues (INRm)	1QFY11	1QFY10	Chg (%)
Industry	12,171	11,106	9.6
Energy	13,503	8,476	59.3
Healthcare	2,613	1,901	37.5
PBIT (INRm)			
Industry	1,321	1,125	17.4
Energy	2,016	1,885	6.9
Healthcare	17	16	6.3
PBIT margin (%)			bps
Industry	10.9	10.1	72
Energy	14.9	22.2	(732)
Healthcare	0.7	0.8	(19)

Source: Company, Antique

Sub segment-wise PBIT margin

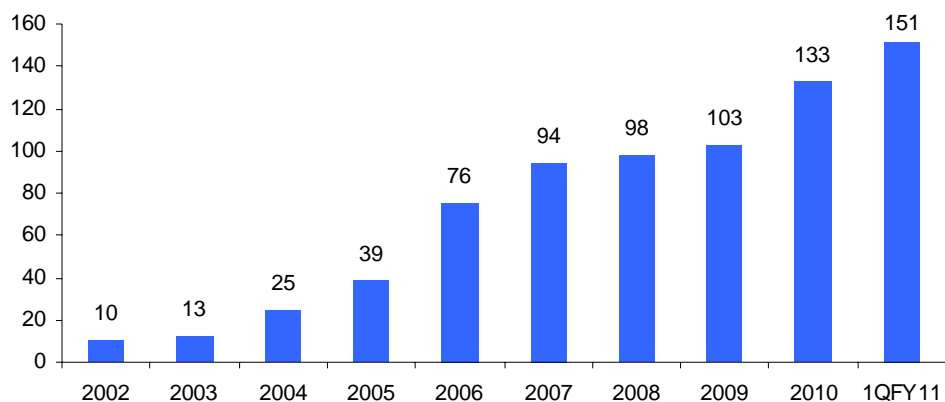
(%)	1QFY11	1QFY10
Industry	10.9	10.1
Industry Automation	9.5	11.7
Drive Technologies	6.5	15.1
Building Technologies	1.3	3.4
Industry Solutions	7.3	7.4
Mobility	26.3	8.5
Energy	14.9	22.2
Fossil Power generation	19.2	45.1
Oil & Gas	12.6	17.9
Power Transmission	18.5	27.8
Power Distribution	7.6	8.5

Source: Company, Antique

Order book at all time high

The order book stands at an all time high of INR151.3bn at the end of the quarter.

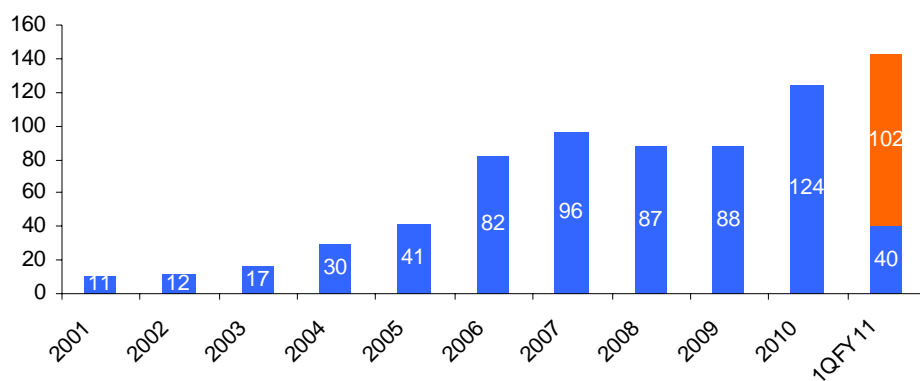
Order backlog (INRbn)



Source: Company, Antique

The order inflow for the quarter stood at INR39.8bn, higher by ~30% over last year's average quarterly intake of INR31bn. Our estimate of order inflow for the current year stands at INR142bn.

Order inflow (INRbn)

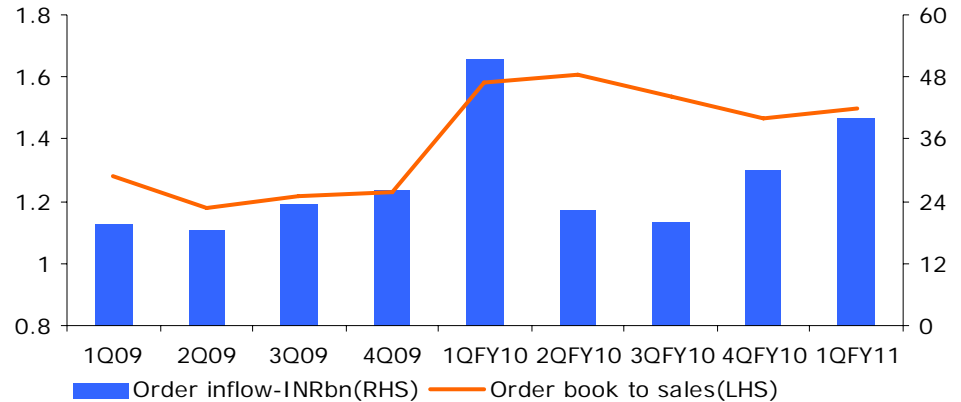


Source: Company, Antique

Order book to sales ~1.5x

The order book to sales ratio registered at 1.5x. The ratio is on the higher side as order book to sales ratio for the company has hovered in the range of 1.1-1.3x in the last two years. We believe this will positively impact revenues in FY11e and FY12e.

Order book to sales



Source: Company, Antique

Valuation and outlook

Strong outlook; maintain BUY

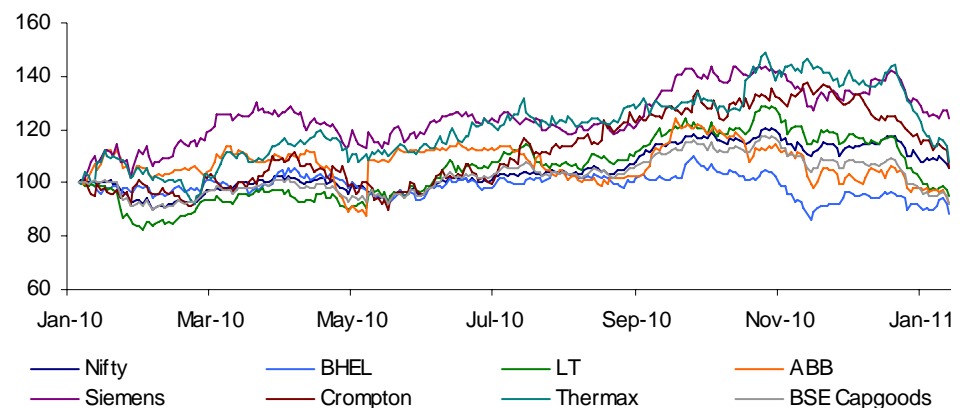
We maintain our positive view on the stock considering the strong order backlog and inflow. We have cut our PE exit multiple for Industrials (20x from earlier 25x for L&T and BHEL). In line with the same, we have assigned 25x (~20% premium). Our FY12e target now stands at INR861 (18% upside) and our Sep'12 target at INR902 (24% upside).

Valuation

	INR
EPS Sep'11	31.3
EPS Sep'12	37.6
FY12	34.5
PE	25
Target- FY12	861
Target- Sep'12	902

Source: Company, Antique

Price performance of Nifty and Capital goods stock

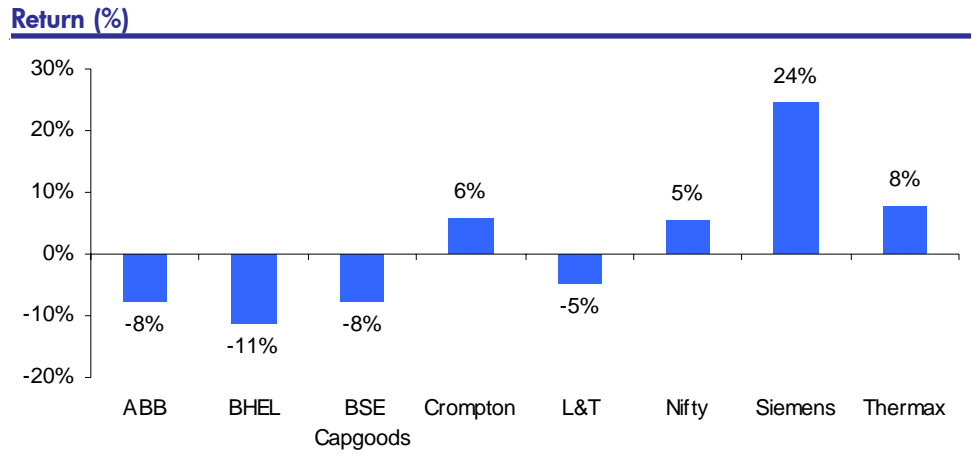


Source: Company, Antique

Siemens has given 24% return in the period - Jan'10 till date

A glance at the returns given by Nifty, BSE Capital goods, BHEL, L&T, Siemens, Crompton, ABB and Thermax.

Siemens has been a clear outperformer among all these outperforming Nifty by ~20% and BSE Capital goods by ~32%.



Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31st Mar	2008	2009	2010	2011e	2012e
Revenues	83,577	84,585	94,001	121,479	149,243
Expenses	75,787	74,353	81,069	105,230	129,744
EBITDA	7,791	10,232	12,932	16,250	19,499
Depreciation & amortisation	637	778	1,015	1,285	1,414
EBIT	7,153	9,454	11,917	14,965	18,086
Interest expense	(451)	(523)	(776)	(1,085)	(1,217)
Other income	1,313	4,401	-	-	-
Profit before tax	8,918	14,377	12,693	16,050	19,302
Taxes incl deferred taxation	2,984	3,870	4,315	5,502	6,617
Profit after tax	5,933	10,507	8,378	10,547	12,685
Adjusted profit after tax	5,104	7,088	8,272	10,547	12,685
Recurring EPS (INR)	15.1	21.0	24.5	31.3	37.6

Balance sheet (INRm)

Year ended 31st Mar	2008	2009	2010	2011e	2012e
Share Capital	674	674	674	674	674
Reserves & Surplus	20,017	28,492	34,103	42,144	51,815
Networth	20,691	29,166	34,778	42,819	52,489
Debt	11	6	2	2	2
Capital Employed	20,701	29,172	34,780	42,821	52,492
Gross Fixed Assets	9,911	11,348	13,549	17,158	21,158
Accumulated Depreciation	(4,339)	(5,053)	(6,209)	(7,494)	(8,908)
Net Assets	5,572	6,295	7,340	9,664	12,250
Capital work in progress	870	1,057	2,465	1,865	1,465
Investments	5,236	4,770	3,885	3,885	3,885
Current Assets, Loans & Advances					
Inventory	7,621	9,722	15,335	19,880	24,511
Debtors	34,328	34,583	33,023	42,677	52,431
Cash & Bank balance	9,131	14,449	18,534	20,009	17,911
Loans & advances and others	6,173	10,458	12,449	16,088	19,765
Current Liabilities & Provisions					
Creditors	41,868	39,656	43,892	72,560	81,039
Other liabilities & provisions	7,272	13,625	15,672	-	-
Net Current Assets	8,113	15,931	19,777	26,094	33,578
Deferred tax assets/(liabilities)	910	1,119	1,313	1,313	1,313
Application of Funds	20,701	29,172	34,780	42,821	52,492

Per share data

Year ended 31st Mar	2008	2009	2010	2011e	2012e
No. of shares (m)	337	337	337	337	337
BVPS (INR)	61	87	103	127	156
CEPS (INR)	17.0	23.3	27.5	35.1	41.8
DPS (INR)	2.4	3.0	5.8	5.8	7.4

Margins (%)

Year ended 31st Mar	2008	2009	2010	2011E	2012E
EBITDA	9.3	12.1	13.8	13.4	13.1
EBIT	8.6	11.2	12.7	12.3	12.1
PAT	6.1	8.4	8.8	8.7	8.5

Source: Company, Antique

Key assumptions

Year ended 31st Mar	2008	2009	2010	2011e	2012e
Order intake (INRm)	87,173	87,960	124,300	142,945	164,387
Order backlog (INRm)	98,338	102,411	132,711	155,849	173,047
Raw material (% of sales)	81.9	76.3	73.5	75.0	76.0
Staff cost (% of sales)	5.4	6.6	6.8	6.8	6.8
Other expense (% of sales)	4.0	5.8	6.7	6.7	6.7

Cash flow statement (INRm)

Year ended 31st Mar	2008	2009	2010	2011e	2012e
EBIT	7,153	9,454	11,917	14,965	18,086
Depreciation & amortisation	637	778	1,015	1,285	1,414
Interest expense	(451)	(523)	(776)	(1,085)	(1,217)
(Inc)/Dec in working capital	2,885	(3,050)	1,991	(2,672)	(7,149)
Tax paid	(3,970)	(5,631)	(4,812)	(5,502)	(6,617)
CF from operating activities	6,254	1,027	9,335	6,990	4,516
Capital expenditure	(1,657)	(1,451)	(2,577)	(3,009)	(3,600)
Inc/(Dec) in investments	(467)	2,526	(702)	-	-
Income from investments	1,313	4,401	-	-	-
CF from investing activities	(811)	5,476	(3,279)	(3,009)	(3,600)
Inc/(Dec) in share capital	-	-	-	-	-
Inc/(Dec) in debt	(5)	(5)	(3)	-	-
Dividends paid	(946)	(1,181)	(1,967)	(2,506)	(3,014)
CF from financing activities	(950)	(1,185)	(1,970)	(2,506)	(3,014)
Net cash flow	4,493	5,318	4,086	1,475	(2,099)
Opening balance	4,638	9,131	14,449	18,534	20,009
Closing balance	9,131	14,449	18,535	20,009	17,910

Growth indicators (%)

Year ended 31st Mar	2008	2009	2010	2011e	2012e
Revenue	72	1	11	29	23
EBITDA	87	31	26	26	20
PAT	50	39	17	28	20
EPS	50	39	17	28	20

Valuation (x)

Year ended 31st Mar	2008	2009	2010	2011e	2012e
PE	48.0	34.6	29.6	23.2	19.3
P/BV	11.8	8.4	7.0	5.7	4.7
EV/EBITDA	29	22.1	17.5	13.9	11.6
EV/Sales	2.7	2.7	2.4	1.9	1.5
Dividend Yield (%)	0.3	0.4	0.8	0.8	1.0

Financial ratios

Year ended 31st Mar	2008	2009	2010	2011e	2012e
RoE (%)	25	24	24	25	24
RoCE (%)	35	32	34	35	34
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
EBIT/Interest (x)	(16)	(18)	(15)	(14)	(15)

Source: Company Antique

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Antique Stock Broking Limited

Nirmal, 2nd Floor, Nariman Point, Mumbai 400 021.
Tel. : +91 22 4031 3444 • Fax : +91 22 4031 3445
www.antiquelimited.com