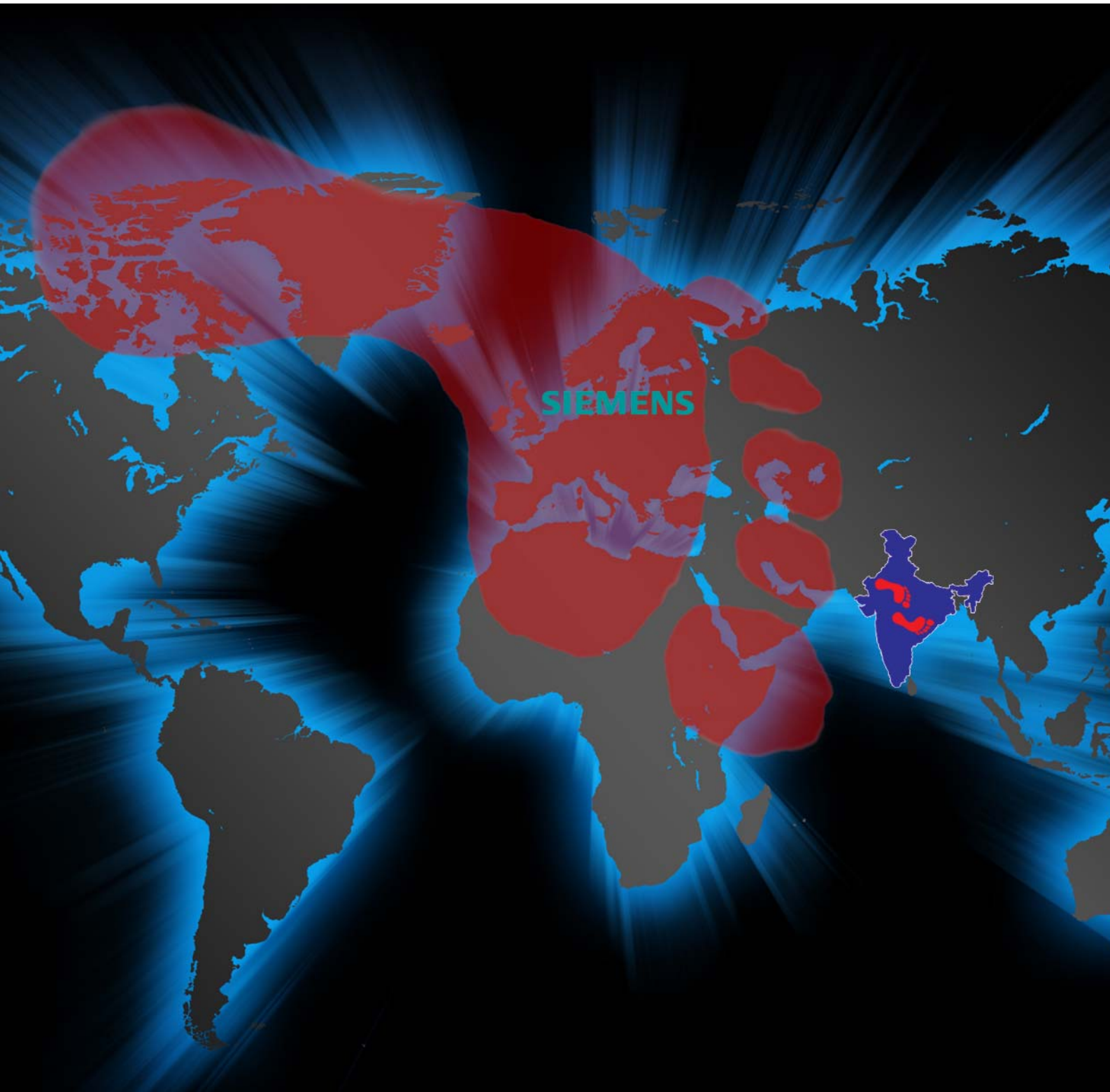


Siemens



The right steps

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Siemens: The right steps

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Valuation and view	16-17
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BSE SENSEX
18,008S&P CNX
5,396

Rs848

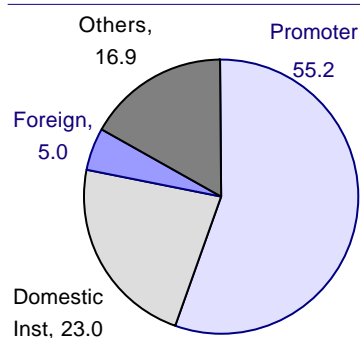
Buy

SIEMENS

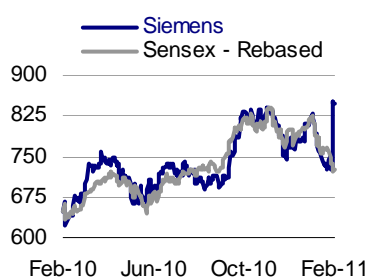
Bloomberg	SIEMIN
Equity Shares (m)	337.0
52-Week Range (Rs)	885/610
1,6,12 Rel. Perf. (%)	15/20/21
M.Cap. (Rs b)	284.8
M.Cap. (US\$ b)	6.2

Y/E Sept.	2011E	2012E	2013E
Sales (Rs b)	120.8	151.8	188.7
EBITDA (Rs b)	15.8	20.0	25.1
PAT (Rs b)	10.5	13.4	16.8
EPS (Rs)	31.3	39.7	49.8
EPS Gr. (%)	27.5	26.8	25.4
BV/Sh. (Rs)	126.3	154.3	190.0
P/E (x)	27.1	21.4	17.1
P/BV (x)	6.7	5.5	4.5
EV / EBITDA (x)	16.9	13.4	10.7
EV / Sales (x)	2.2	1.8	1.4
RoE (%)	27.3	28.3	28.9
RoCE (%)	42.1	43.4	44.1

Shareholding pattern % (Dec-10)



Stock performance (1 year)



The right steps

Siemens is a multi-dimensional company with an impressive product portfolio, and has strong capabilities to serve core sectors like Infrastructure and Industry. With the strategy of aggressively widening the product footprint in India, it stands to significantly benefit from the long-term growth opportunity in the country. The company is investing Rs16b over the next three years, which should ensure sustainable and profitable growth through enhanced indigenization. Reiterate Buy with a revised target price of Rs954.

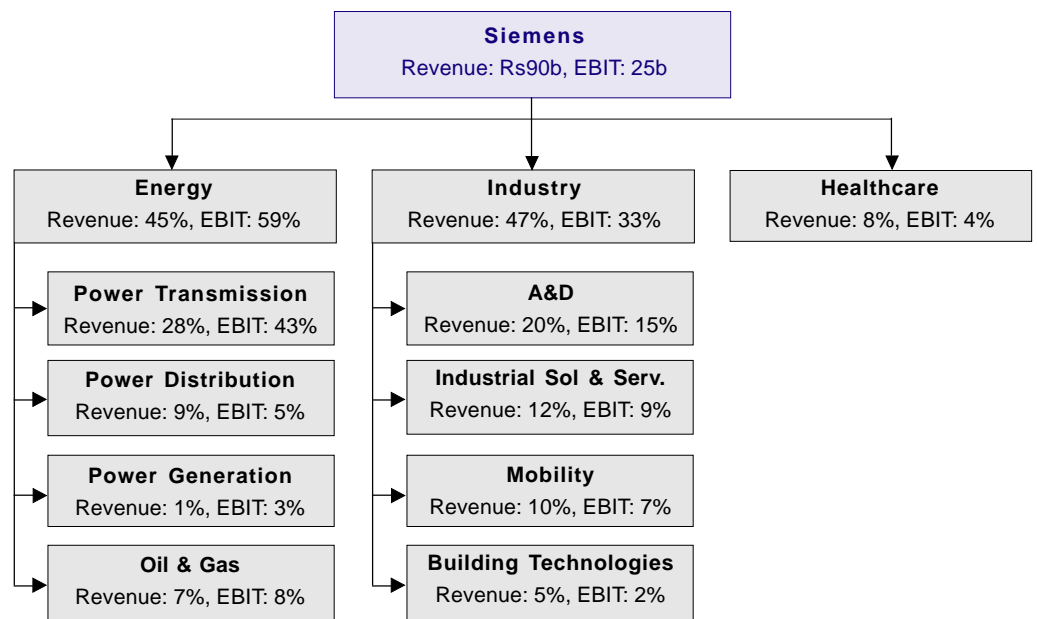
- Strong product portfolio, diversified business mix:** Siemens India has strong capabilities in three core sectors of the economy: Infrastructure, Industry and Consumer (Healthcare, Water). It has been aggressively widening its product footprint in India and stands to significantly benefit from the long-term growth opportunity in the country. The company has shown considerable stability in earnings growth in the past few years, with standalone sales and profit growing at a CAGR of 30% and 34%, respectively over FY03-10. We believe that with non-core businesses like Software and Telecom already divested, the company will maintain the trend in the next three years.
- Growing presence in parent's global footprint:** Siemens India is emerging as a key partner in Siemens AG's global growth strategy. The company is already a key beneficiary of the Group's growing presence in several developing regions. It has meaningfully benefited from ongoing infrastructure investments in the Middle-East, particularly Qatar, bagging orders worth Rs95b, accounting for 20% of its order intake since FY06. We believe that India will also be a key sourcing destination for value-priced products.
- New business verticals to drive growth beyond FY12:** During the past three years, Siemens has invested Rs7.7b and plans to invest Rs16b over the next 3-4 years. New investments will be targeted at setting up six new hubs in the country. These hubs will design, develop and manufacture various products for Indian as well as the world markets. Four out of the six hubs will be 'centers of competence' for value-priced products. The company is also investing Rs5b to set up its first manufacturing facility (one of twelve factories worldwide) for wind turbine generators. We believe that these investments will drive significant growth beyond FY12.
- Parent's open offer signals strong growth outlook:** Siemens AG has made an offer to the shareholders of its Indian subsidiary to acquire up to 19.82% of its share capital at a price of Rs930 per equity share. Currently, Siemens AG holds 55.18% in the Indian subsidiary and intends to further consolidate its shareholding. We see this as a strong signal about the growth outlook for Siemens India.
- Valuation and view:** We believe that Siemens offers a unique exposure to Indian Industry, Power, Transport and Healthcare sectors, and will continue to command a significant premium to the broad market. We believe that investments in the Power, Transport and Industry sectors, coupled with outsourcing by the parent, will lead to 27% earnings CAGR for Siemens India over FY10-13. We are revising our earnings estimates upwards by 4% for FY11 and by 3% for FY12. We maintain **Buy**, with a revised price target of Rs954, based on 24x FY12E EPS (implying 21% return assuming 45% acceptance in the open offer).

Strong product portfolio, diversified business mix

Siemens India is a multi-dimensional company, with a strong product portfolio and servicing capabilities in three core sectors of the Indian economy: Infrastructure, Industry and the Consumer sector (Healthcare, Water). With its strategy of aggressively widening its product footprint in India, Siemens India stands to significantly benefit from the long-term growth opportunity in the country. The company is investing Rs16b over the next three years, nearly twice as much it did during the period FY07-10. We believe this would help ensure not only sustainable but also profitable growth through enhanced indigenization.

Diversified business mix provides growth stability

Energy, Industry and Healthcare segments grew at a CAGR of 3%, 17% and 13%, respectively over FY07-10; and expect to post higher growth of 36%, 18% and 15%, respectively over FY10-13



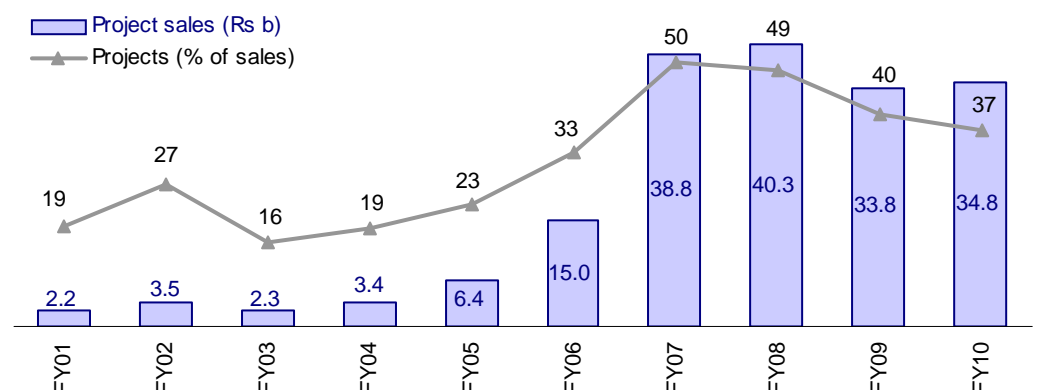
Source: Company/MOSL

Growing exposure to large projects

Growing presence in the Middle-East boosted project sales

Over the past several years, Siemens India has enhanced its EPC capabilities. It has received large orders in India and Middle-East in the past four years. We expect the company to be a key player in Power, Industrial and Railway projects.

Share of projects increasing



Source: Company/MOSL

Siemens' strength in Power and Industrial Automation Systems gives it a competitive advantage

Strong in key segments, where it has expertise

■ Infrastructure

- **Power sector:** Siemens is a key player in the T&D segment, with focus on transformers, substations and automation. It has nearly one-third market share in all 765KV substations awarded in India. The company has also set up a world-class extra-high voltage transformer and a GIS manufacturing factory, which will strengthen its position in the Indian T&D market. Siemens is also aggressively targeting the e-BoP (electrical Balance-of-Plant) segment of the generation segment, which will provide additional growth opportunity.
- **Railways and Urban Transport are key growth areas:** While Siemens benefits from investments in a vast number of Infrastructure sectors, Railways accounts for a large chunk of the overall pie. Siemens is a dominant player in the sector, with local manufacturing capacity for traction motors, rolling stock and control panels. It has bagged several key Railway projects and will continue to benefit from overall investment in the sector.
- **Oil and Gas:** Siemens has strong product portfolio for automation in the entire value chain of the Oil and Gas sector. The company stands to benefit from large investments planned in the Indian Oil and Gas sector.

■ **Industry — dominant position in industrial automation and drives:** Siemens continues to enjoy leadership position across various industries. It has strong presence in motors, automation and drives, and industrial turnkey projects.

■ **Healthcare segment to be a new growth driver:** The Indian medical equipment market, estimated at around Rs40b, is expected to grow at over 15% in the next several years due to the growing Healthcare market in India. Siemens, with a market share of 18% (source: Industry) is the market leader in the space, followed by Wipro GE and Philips. It has a manufacturing base in Goa for high-end products like x-ray mobile machines. However, ~80% of products sold are sourced from the parent. We expect that Siemens will enhance its product base in India, providing long-term growth opportunities in the space. We believe Siemens India will be a major sourcing destination for medical diagnostic products.

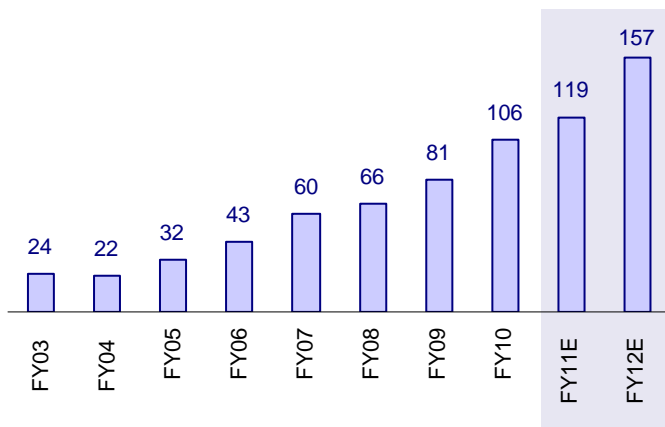
To benefit from transmission sector investments

With success in India's first private sector HVDC line (by Adani Power), Siemens is well placed to gain from growing demand in the space

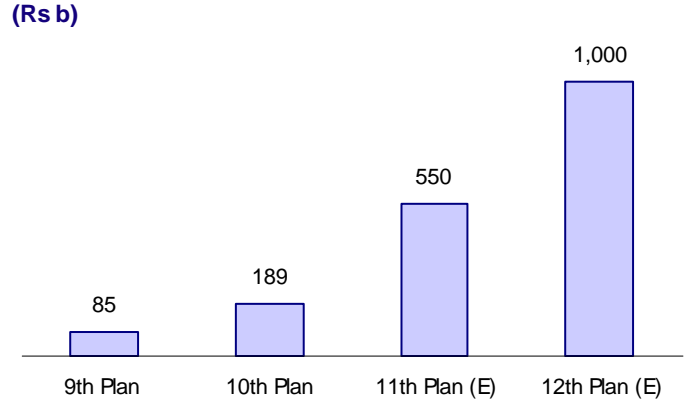
T&D is the core area of growth for Siemens. It has the capability to set up extra high voltage transmission systems like HVAC (High Voltage Alternating Current) and HVDC (High Voltage Direct Current). The company has set up a large transformer factory, with a capacity of 15,000MVA, which was commissioned in December 2007. Recently, it dispatched India's first 500MVA HVDC transformer. We expect the company to become a key player in the 765KV transformer market in the next couple of years (no order as yet). Siemens has already bagged a third of all of Powergrid's 765KV substation orders.

The transmission sector has invested ~Rs550b during FY08-10, amounting to ~40% of planned investments. Transmission investment, being back-ended, is expected to accelerate over the next two years. To facilitate transfer of power, inter-regional transmission capacity is being expanded to 38,650MW by the end of the current five-year plan from 20,750MW as at March 2009, at an investment of ~Rs550b by Powergrid (total 11th Plan). Further, an investment of Rs414b will be required to evacuate power generated from nearly 35GW of power capacity to be commissioned in the next five years by private developers.

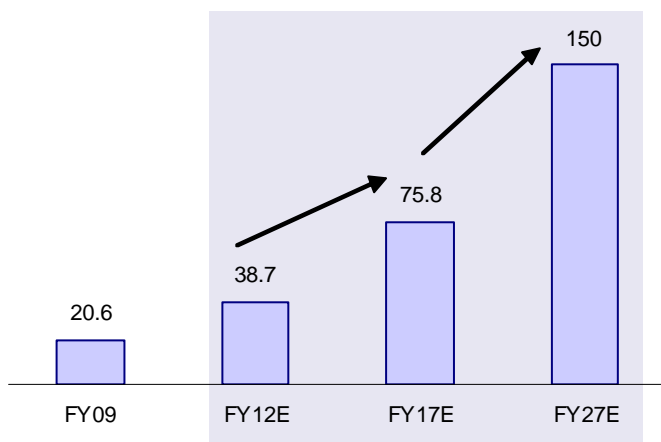
Expect Powergrid to achieve eleventh plan targets (Rs b)



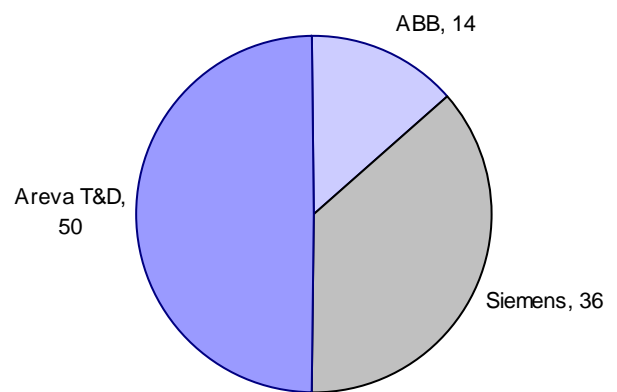
Meaningful acceleration in plan-wise capex by Powergrid (Rs b)



Inter-regional transmission capacity to double in the next 5-6 years ('000 MVA)



Market share of Powergrid's 765KV substation orders (%)



Source: Company/MOSL

Multi-fold jump in demand for 765KV transformers and substations

Capacity (MVA)	At end of Plan Period			Plan-wise Addition		
	10th Plan	11th Plan (E)	12th Plan (E)	10th Plan	11th Plan (E)	12th Plan (E)
765kV	2,000	53,000	163,000	2,000	51,000	110,000
400kV	92,942	145,000	225,000	32,562	52,058	80,000
230/220kV	156,497	230,000	325,000	40,134	73,503	95,000
Total	251,439	428,000	713,000	74,696	176,561	285,000

Source: CEA

Siemens has a strong industrial products portfolio

Industry Segments	% of Segment Sales	Key Products
Industry Automation	15	Automation products and solutions
Drive Technologies	29	Motors, drives, turbines, drive systems, panels.
Building Technologies	10	Building management solutions
Industry Solutions	25	Large industrial projects
Mobility	21	Railways- traction motors, signalling equipment; Aviation products and solutions

Source: Company/MOSL

Siemens has set up advanced facilities for traction systems and rolling stock manufacturing, which will help it to gain market share in the Railways segment

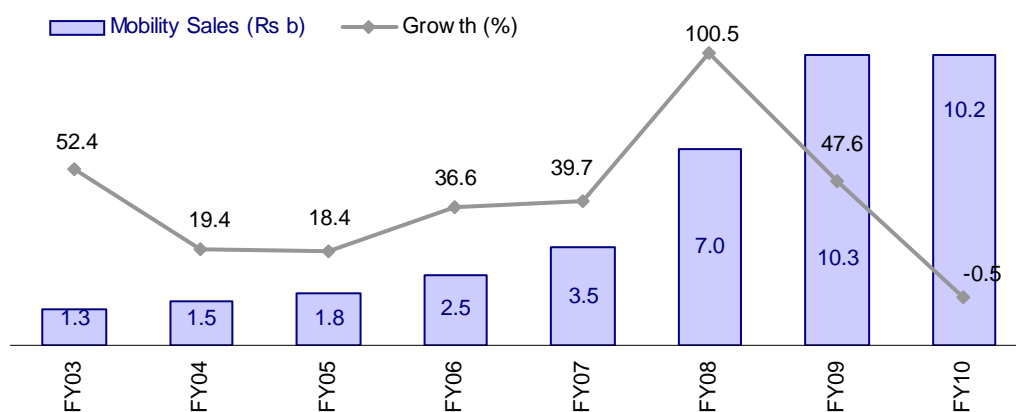
Building mobility portfolio to benefit from investments in Railways

Indian Railways has a huge capex plan of Rs14,000b (US\$300b+) over FY11-FY20. This will involve creation of new lines, augmentation of capacity, safety, etc. It has been tentatively assessed that 64% of the investment could be mobilized by Indian Railways through surpluses from high growth in freight and passenger traffic, supported by prudent borrowing and use of PPP initiatives. The Railways plans to use PPP model in a number of areas such as developing world-class stations, setting-up of rolling stock manufacturing units, logistics hubs, high-speed corridors and big infrastructure projects like dedicated freight corridors. The Railways expects 36% of funds to be met by government budgets. While its past track record has been dismal (addition of only 10,000km of new lines in past 64 years after independence, as against 53,996km inherited in 1947), we expect a significant increase in investments over the next 10 years.

Siemens' mobility division is a key player in the rail-based transport solutions. The company's units at Kalwa (Thane) and Nashik have advanced manufacturing capacities to produce railway propulsion equipment. The division has bagged several key projects in the past from Indian Railways. Recently, it received an order from Delhi Metro for electrification of the metro route from the airport to the city as also the baggage check-in facility at the airport. Despite slowdown in the general industrial environment, the mobility division has posted strong growth in FY09. Given the investment pipeline that Indian Railways has and likely progress on the dedicated freight corridor, we believe Siemens' mobility business will be among its fastest growing businesses.

After running into losses in FY08 and FY09 due to cost and time over-run on a large project, the division turned positive in 1QFY10. With larger project portfolio and higher localization, this business should remain profitable.

Mobility sales have tripled in the last three years



Source: Company/MOSL

Growing presence in parent's global footprint

Siemens India is emerging as a key partner in Siemens AG's global growth strategy. This is vindicated by growing investment by the Group in the country. Over the last 3-4 years, Siemens India has invested nearly Rs7.7b and plans to invest an additional Rs16b over the next 3-4 years. Siemens India is also the key beneficiary of the Group's growing presence in other developing regions like the Middle-East.

Outsourcing — parent sees Siemens India as a key partner to meet demand in emerging markets

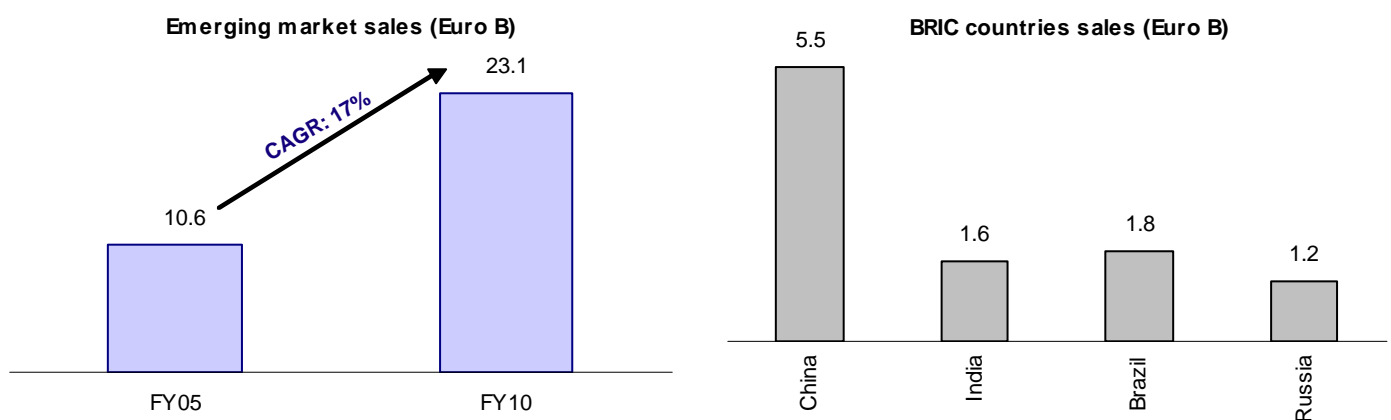
Siemens AG's sales in emerging markets have grown at a rapid pace of 17% CAGR over FY05-10. The company expects developing markets like China, India, and others to drive growth in future as well. To increase its global footprint and be competitive, it has embarked upon a strategy of internationalizing its various businesses.

The key priorities include:

- Regional presence
- Local innovation (smart products)
- Outsourcing opportunities

Given its long history, strong manufacturing base and strong talent-resources, Siemens India is expected to play a major role in Siemens AG's global growth aspirations over 2011-20.

India is a key contributor to Siemens AG's emerging market sales



Source: Company/MOSL

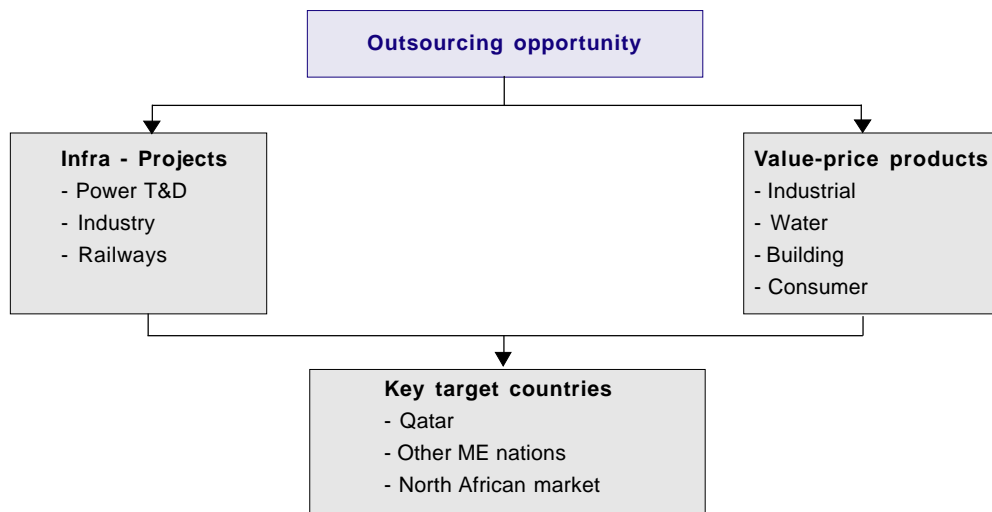
Management has strongly reinforced its views on India

In the FY10 annual report, Siemens India's Chairman says, "India has been identified as one of the high potential markets by Siemens globally and concrete plans have been laid out to leverage this potential. While we will continue to provide top notch technology products for the classical high end markets, we will also leverage local strengths and manufacture base level products firstly for India's domestic markets and other emerging markets."

With proposed investments in the value-priced products, we expect significant jump in product exports

Siemens expects to post strong growth in FY11, led by both domestic sales and exports. In the FY10 annual report, the Chairman says, "We are optimistic about FY11 with respect to the potential of growth markets and the business environment. With greater flexibility to develop and manufacture base level products for our own markets and the option of exploring opportunities to export them to similar emerging markets, we have to strengthen the local talent at Siemens."

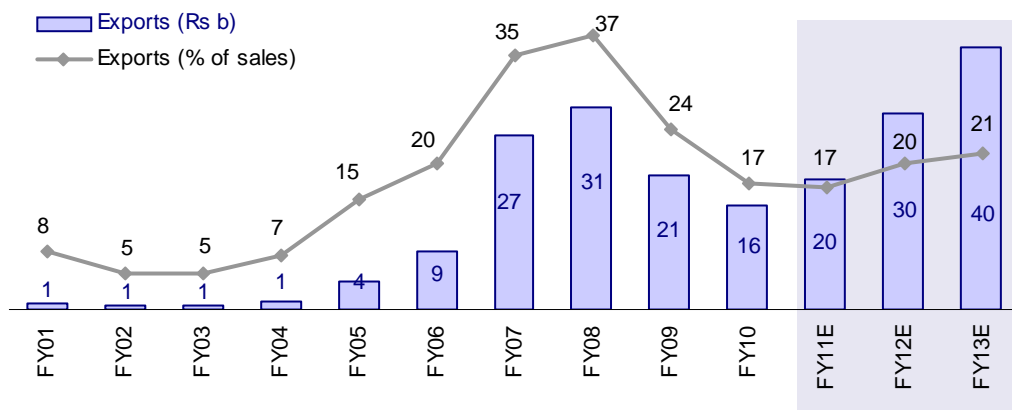
Techonology, capacity and cost structure make India a key sourcing hub



Source: Company/MOSL

Siemens India's exports are growing

Siemens is executing a Rs30b contract in Qatar, which will help the company post strong revenue growth in FY11



Source: Company/MOSL

Meaningful traction in orders from Qatar

Siemens India has meaningfully benefitted from ongoing infrastructure investments in the Middle-East, particularly Qatar. The company, along with Siemens AG, has bagged orders worth Rs95b (Siemens India's share) from Qatar General Water and Electricity Corporation (Kahramaa), Qatar's monopoly power and water distribution company, and a project from Ezdan Real Estate QSC. These orders account for 20% of the company's total order inflows since FY06 (October 2005). More orders are expected from Qatar in the next few months.

Orders from Qatar (Rs m)

Date	Siemens India	Siemens AG	Months	Scope
11-Oct-05	13,900	1,800	22	16 High Voltage substations and 600 km of high voltage cables. Part of Phase V of Qatar Grid.
28-Nov-05	8,500	1,500	18	3 units of Gas Insulated (GI) substations. Part of Phase V of Qatar Grid.
9-Mar-06	5,300	1,100	19	5 units of 220/132/66 KV substations. Part of Phase VI of Qatar Grid.
22-Nov-06	36,000	4,000	22	25 substations, extension of 14 and renovation of 10 substations. Part of Phase VII of Grid.
4-May-09	790	-	24	11 units of air insulated circuit breakers
8-Oct-09	3,420	610	15	Ezdan Real Estate QSC, 4 substations 220 KV/ 66 kV/11 kV.
10-Nov-09	6,080	-	24	Cable works.
19-Jan-10	24,910	4,650	36	14 substations and 5 modifications. Part of phase IX of Qatar Grid.

All projects from Kahramaa, except the one from Ezdan

Source: Company/MOSL

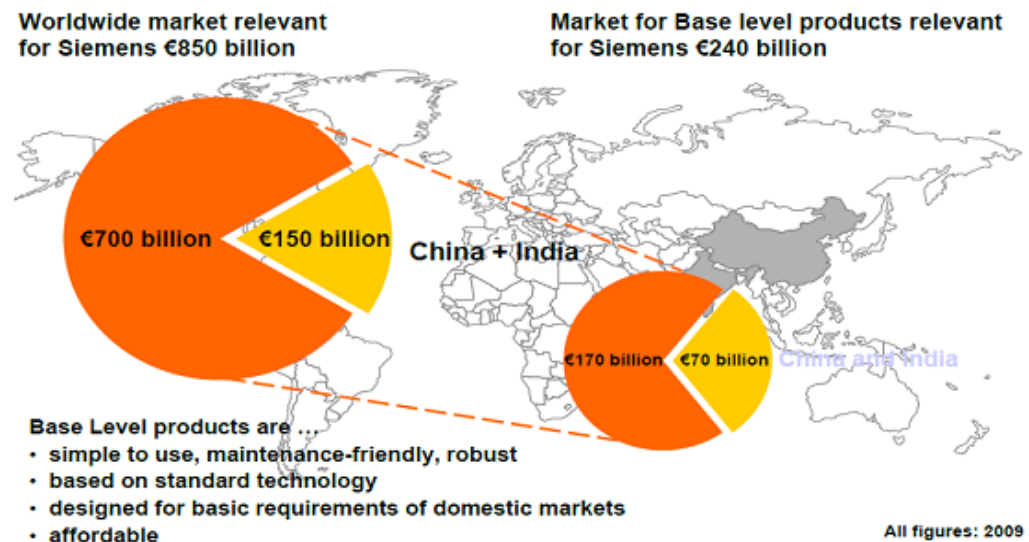
Siemens India's share has exceeded 80% in all contracts in Qatar; all contracts carry very healthy margins

Huge outsourcing potential for base-level products

Given the technology competence and reasonable cost-structure, Siemens India has the mandate from its parent to manufacturing base-level products in India. Base-level products will not only meet Indian demand, but also demand in other emerging markets. The company estimates the potential relevant market for base-level products in China and India at EUR70b.

Expect production for base level products to start from FY12

China and India: Sourcing destinations for base-level products



Source: Company/MOSL

New business verticals to drive growth beyond FY12

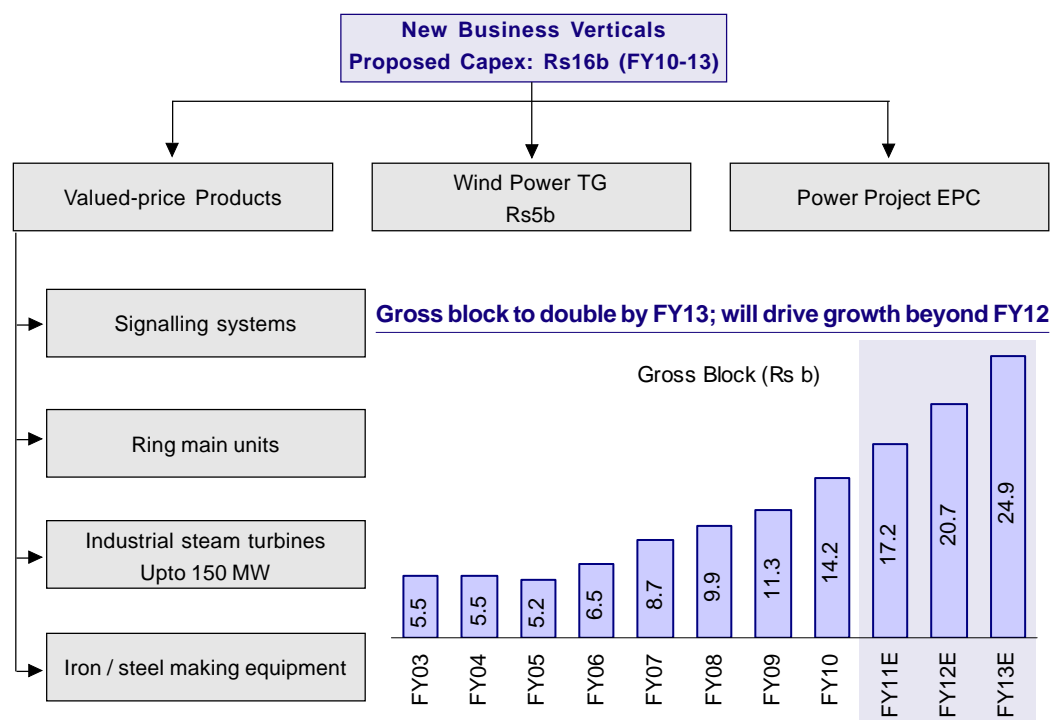
Siemens India is on expansion mode. The company has plans to invest Rs16b over the next three years to set up six new hubs in the country. These hubs will design, develop and manufacture various products for Indian as well as the world markets. Four out of the six hubs will be 'centers of competence' for low-priced products.

Siemens India has invested Rs7.7b over FY07-10

Products	Date	Cap p.a.	Cost Rs mn	Location	Comments
Industrial steam turbines	Jan-07	NA	300	Vadodara	'centre of competence' - upto 45 MW
Industrial steam turbines - Phase 2	Nov -10	NA	2,750	Vadodara	Capacity tripled; upto 150MW
Transformer factory	Dec-07	15,000 MVA	2,000	Thane	800 KV, HVDC, Furnace applications
Instrument Transformers	Aug-08	3000 units	250	Aurangabad	SF6 insulated CT, PT, etc.
Gas Insulated switchgears	Apr-09	NA	400	Aurangabad	Wide voltage range - upto 400 kv range
Rolling stock (Railways bogies)	Apr-10	800 units	2000	Aurangabad	Capacity to go up to 1400 units

Source: Company/MOSL

Setting up six hubs to introduce new business verticals



Source: Company/MOSL

Wind turbines - India one of the Group's 12 manufacturing locations

Siemens AG is one of the top-6 wind turbine manufacturers in the world. Currently, it has seven manufacturing facilities in three countries. Over the next three years, it aims to have 12 wind turbine production facilities in seven countries across the globe, one of which is India. Siemens will be investing Rs5b in India, comparable with investments in other locations.

Siemens AG is among the top-6 WTG manufacturers worldwide

Siemens AG entered the wind power business in 2004, with its acquisition of Bonus Energy, Denmark's oldest wind turbine manufacturer and the fifth largest in the world at that time. Currently, there are 32 large wind turbine manufacturers globally. Siemens is ranked number-6 in sales, with ~6% worldwide market share. Siemens' wind turbines come in three power output configurations of 1.3MW, 2.3MW and 3.6MW. Siemens claims to have the largest share in the offshore wind market due to its highly popular 3.6MW model.

New expansions in India, China and UK

Siemens AG has seven manufacturing facilities in three countries. Over the next three years, it aims to have 12 wind turbine production facilities in seven countries across the globe. Recently, Siemens opened its first rotor blade manufacturing plant in China (Shanghai), a new nacelle production facility in Hutchinson, Kansas, and has selected Tillsonburg in Ontario for its Canadian rotor blade manufacturing site. It has announced the construction of other wind turbine production facilities in UK, India and China, and a joint venture for the production of wind turbine components for the Russian market.

Investing Rs5b in India, comparable with investments in other locations

Siemens will be investing Rs5b over the next three years to build high-end wind turbines in India for the Indian and world markets. It will be setting up an advanced manufacturing facility in Gujarat. The first of its India-made turbines should ship out in 2012.

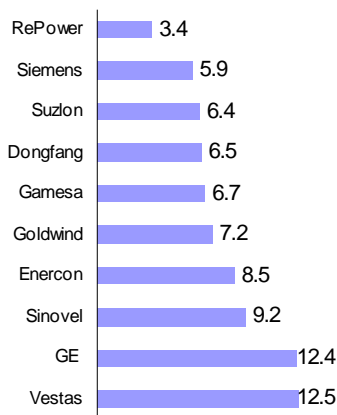
Siemens India to participate in global wind power growth

According to industry experts, the global wind power market is likely to triple to 447GW in the next five years (by 2014) and may hit 1,000GW by 2020. Wind power will deliver 1.6% of the world's electricity in 2010, while its share could rise to over 8% by 2020. China has emerged as the fastest growing market, with new installations of 13.75GW in 2009 (total capacity 27GW), as compared with 10GW each for Europe and the USA.

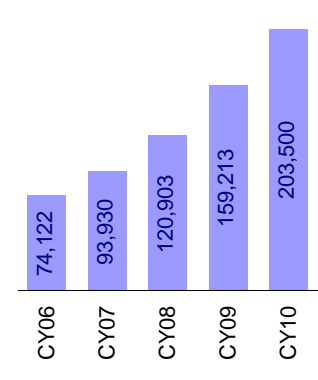
Over the last five years, the average growth rate of wind power installations in US was 39%. With 10,000MW in newly erected wind turbines and a total installed capacity of 35,000MW in 2009, US was the world's most important wind market, followed by China, which grew from ~14,000MW in 2008 to 26,000MW in 2009.

India plans to quadruple its power generation capacity from renewable sources to 72GW by FY22, from the current base of a mere 18.3GW. Suzlon, with nearly 50% market share, is a leading player in India. Siemens India will be a key beneficiary of demand from India and several other parts of the world.

Market share of wind turbine manufacturers (%)



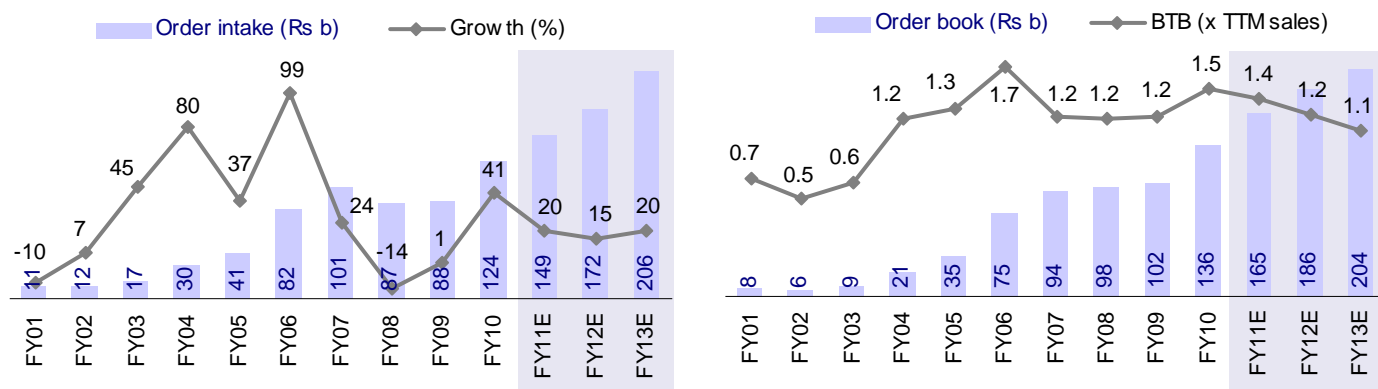
Worldwide wind turbine capacity (MW)



Robust earnings outlook

We expect Siemens India to post earnings CAGR of 30% over FY10-13, on the back of growing order book and improving margins. Investments in new business verticals will provide growth catalysts beyond FY12. Siemens has invested in cost restructuring and project management, which will help the company to maintain margins, going forward.

Orders growing at brisk pace after two years



Source: Company/MOSL

Received two mega-orders in 2010

Client	Value (Rs M)	Date	Execution	Project
Torrent Power	~20,000	2-Ju-10	36 months	Two CCPP with total 1600 MW capacity
Gurgaon Metro	~6,000	11-May-10	30 months	Total rail Solutions for 6.1 km stretch of line
PGCIL, India	1,000	2-Feb-10	11 months	1 unit of 765 KV Substation job.
Kahramaa, Qatar	24,910	19-Jan-10	36 months	Total order Rs. 29,560 million, with Siemens AG, substation works.
Kahramaa, Qatar	6,080	10-Nov-09	24 months	Cables works.
Ezdan, Qatar	3,420	8-Oct-09	15 months	Ezdan Real Estate QSC, substation jobs, with SAG (Rs 610 million).
PGCIL, India	3,600	30-Sep-09	27 months	2 units of 765 KV substation jobs.
PGCIL	1,090	22-Jul-09	24 months	1 unit of 765 KV substation job.
Vedanta Alumunium	1,120	22-Jun-09	-	HV distribution system at Smelter plant at Jharsuguda, Orissa
Kahramaa, Qatar	790	4-May-09	24 months	Air insulated Circuit breakers.
Adani Power	7,200	30-Apr-08	-	With SAG (6,600 million), EPC contract to set up a bipolar 500 KV HVDC line.

PGCIL: Powergrid Corporation of India, Kahramaa: Qatar General Electricity & Water Corporation

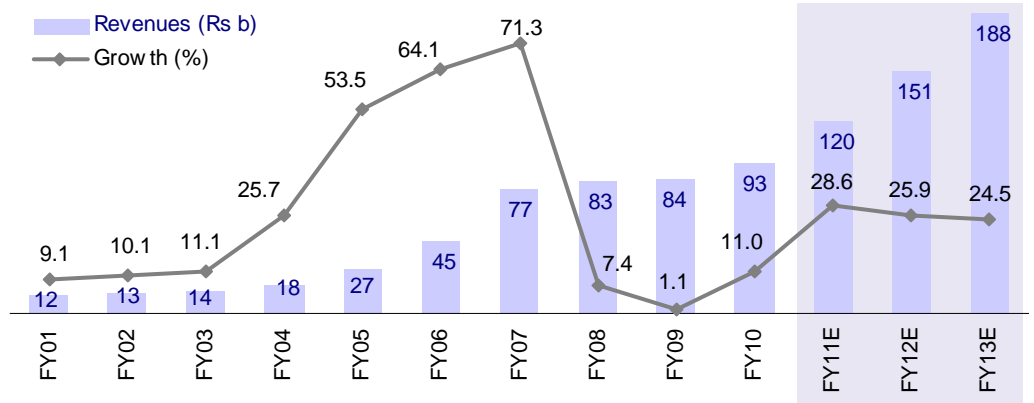
Revenue to grow at 26% CAGR, boosted by short-cycle sales and projects exports

Key earnings assumptions	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Order intake (Rs b)	82.0	101.4	87.2	88.0	124.3	149.2	171.5	205.8
Growth (%)	99	24	-14	1	41	20	15	20
Order book (Rs b)	75.3	94.1	98.3	102.3	135.8	165.2	185.8	203.8
Revenues (Rs m)	45.1	77.3	83.0	83.9	93.2	119.8	150.9	187.9
Book to bill (x, TTM sales)	1.7	1.2	1.2	1.2	1.5	1.4	1.2	1.1
Cost assumptions (%)								
RM/sales	73.5	76.2	74.8	68.5	70.4	71.0	71.0	71.0
Employee cost/sales	6.2	5.1	5.2	6.5	6.8	6.4	6.1	5.9
Other Expenses/sales	11.4	9.2	10.8	12.9	9.0	9.6	9.8	9.8
Total cost/sales	91.1	90.6	90.9	87.9	86.1	86.9	86.8	86.7
EBITDA margin	8.9	9.4	9.1	12.1	13.9	13.1	13.2	13.3

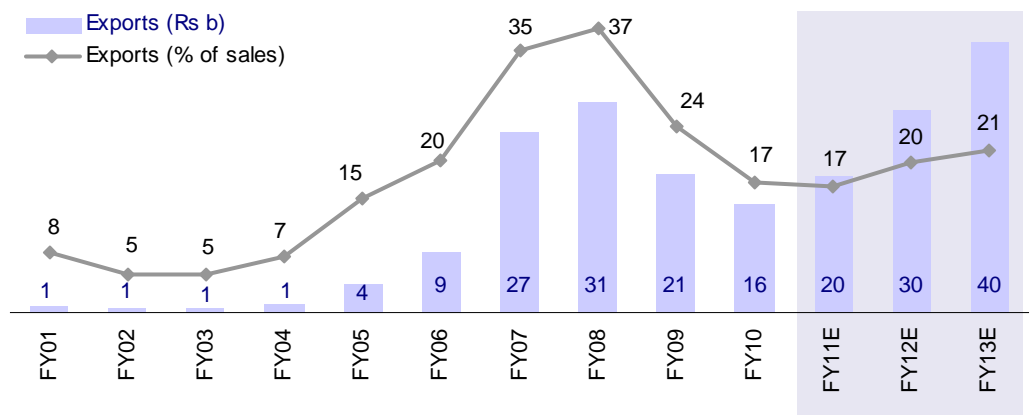
Source: Company/MOSL

FY10-13 revenue CAGR of 26 %

1QFY11 order book stands at Rs151b, providing strong revenue visibility for FY11



Exports at 20% of sales



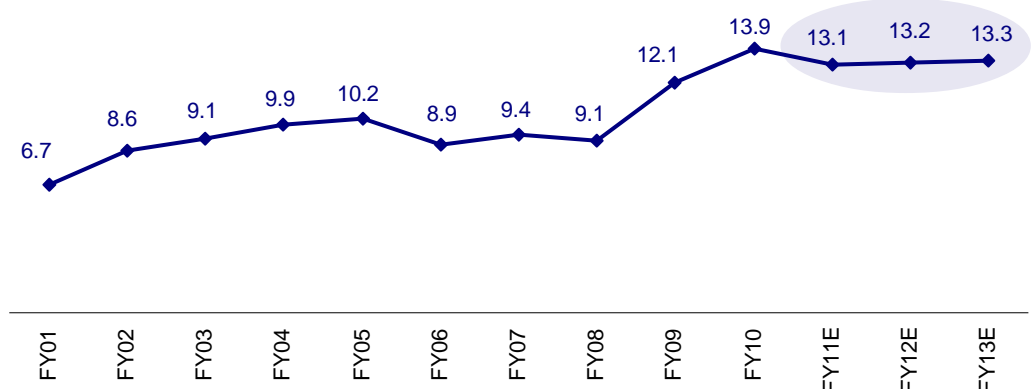
Source: Company/MOSL

EBITDA margin has improved, led by increasing indigenization

Improving margins in T&D projects have boosted Siemens' overall margins

Siemens' yearly EBITDA margin has been stable at 9-10% over FY02-08. However, there has been considerable volatility on a quarterly basis. The company incurred losses on EPC contract to execute Torrent's combined cycle power project (1,350MW) bagged in FY05. It provided a significant amount for 'anticipated losses' on this project during 3QFY07 (quarter ended June 2007) and again in 2QFY08 (quarter ended June 2008). 2QFY08 earnings were particularly impacted, as the company made a provision of Rs1.09b against anticipated losses and made sales reversal of Rs1.17b. Profitability has improved sharply in FY09, as margins expanded across segments.

EBITDA margin to settle at around 13%



Source: Company/MOSL

Rs13b of provisioning provides cushion against possible project-related write-offs

Aggressive provisioning in FY09-10 will ensure healthy margins

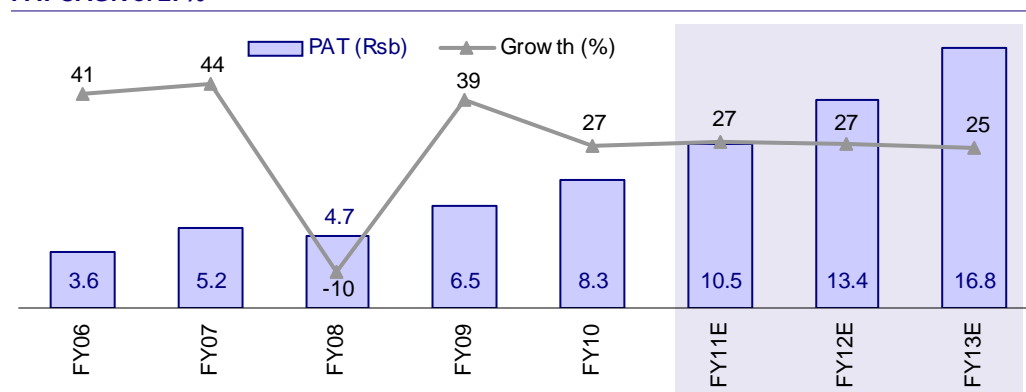
Since FY09, Siemens has been aggressively providing for anticipated project-related cost incidences (warranties, loss-orders, liquidation damages and contingencies). As at FY10, total provision on account of these items in the balance sheet stood at Rs13b as compared with Rs3.3b in FY07. We believe that this provides reasonable stability to margins.

Provisions on account of loss orders, warranties, LD and contingencies (Rs m)

	FY07	FY08	FY09	FY10
Opening	2,400	3,961	4,925	11,130
Created	2,779	3,858	7,206	4,378
Utilised	-610	-1,487	-1,214	-1,212
Reversed	-478	-689	-797	-1,271
Closing	3,289	4,791	10,121	13,025
Total	890	1,502	5,329	2,904
Net Provision added as % of sales	1.2	1.8	6.4	3.1

Source: Company/MOSL

PAT CAGR of 27%

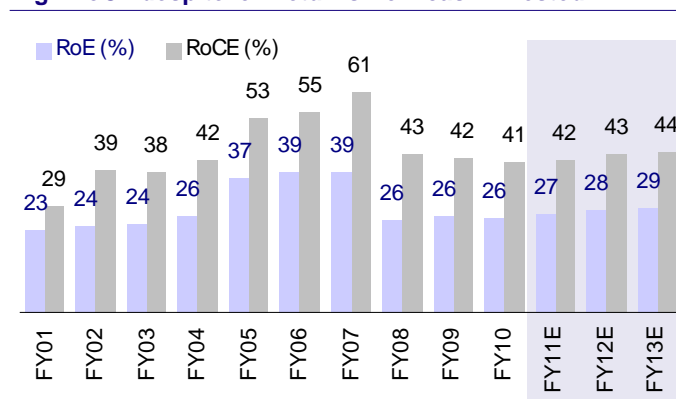


Source: Company/MOSL

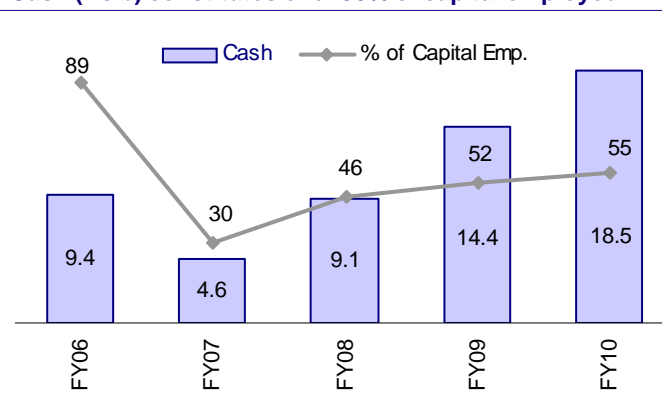
Strong balance sheet — cash at Rs18b

- Free cash flow from operations, before capex, stood at Rs9.6b in FY10, up sharply from Rs4.5b in FY09. Cash balance grew to Rs18.5b in FY10 from 14.5b in FY09. We expect cash balance to cross Rs28b in FY11 despite ongoing capacity expansion.
- During the year, debtor-days improved to 129 days from 149 days in FY09. Inventories, however, rose to 85 days from 61 days a year ago. A large part of the increase in inventories was due to pick-up in execution of Rs25b Qatar project.
- The company has maintained return ratios at healthy levels despite ongoing capacity expansion program.

High RoCE despite low returns from cash invested



Cash (Rs b) constitutes over 50% of capital employed



Source: Company/MOSL

Valuation and view

Siemens offers a unique exposure to Indian industry, power, transport and healthcare sectors. The company is set to benefit from the business restructuring in the recent past to improve its cost structure and range of products. We believe investments in the power and transport sectors are set to accelerate, benefiting players like Siemens. The recent revival of Indian industry will also benefit the company. This, along with outsourcing by the parent, will lead to 26% earnings CAGR for Siemens over FY10-13.

We are revising our earnings estimates by 4% for FY11 and by 3% for FY12. The stock is trading at 27x FY11E and 21x FY12E earnings. We maintain **Buy**, with a revised price target of Rs954, based on 24x FY12E EPS (implying 21% return assuming 45% acceptance in the open offer).

Parent's open offer signals strong growth outlook

Siemens AG has made an offer to the shareholders of its Indian subsidiary to acquire up to 19.82% of its share capital at a price of Rs930 per equity share. Currently, Siemens AG holds 55.18% in the Indian subsidiary and intends to further consolidate its shareholding. We see this as a strong signal about the growth outlook for Siemens India.

Earnings change (Rs m)

	FY11E			FY12E		
	Old	New	% Chg.	Old	New	% Chg.
Revenue	120,780	120,832	0.0	151,796	151,767	0.0
EBITDA	15,219	15,794	3.8	19,516	19,958	2.3
PAT	10,157	10,543	3.8	13,006	13,370	2.8
EPS (Rs)	30.1	31.3	3.8	38.6	39.7	2.8

Source: MOSL

Unfavorable business restructuring - a key risk

During the last three years, Siemens India has divested businesses such as Information & Communication, Telecom, Automotive and Information Technology to the parent. Information & Communication and Telecom (SPCNL) businesses were divested in FY07. These businesses contributed ~1.4% and ~4.8% of FY07 revenue, respectively. Automotive (VDO) business, which contributed ~1% of FY07 revenue, was divested in 1QFY08. Information Technology (SISL), which contributed ~10% of FY08 revenue, was divested in 1QFY09. Though we do not see any meaningful business restructuring in the foreseeable future, any change in Siemens AG's global strategy will impact on Indian operations and Siemens India's valuations.

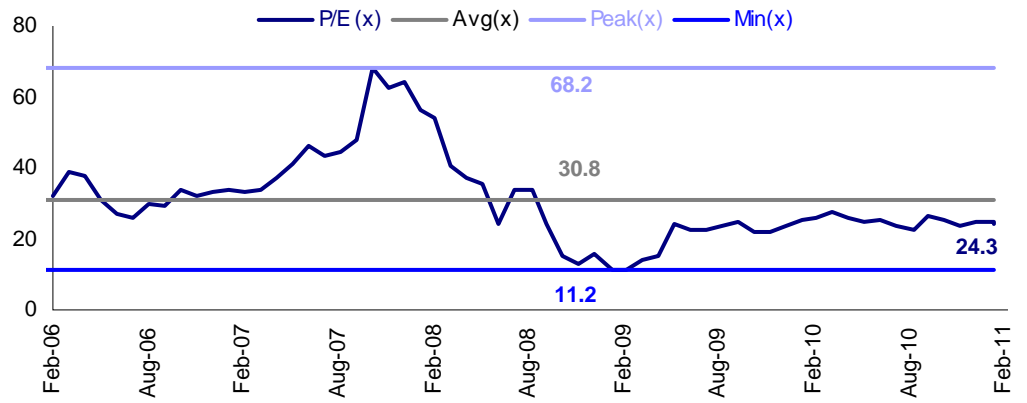
Comparative valuations

		Siemens#	Crompton	ABB*
P/E (x)	FY11E	27.1	18.7	147.5
	FY12E	21.4	15.5	35.4
P/BV(x)	FY11E	6.7	5.3	7.1
	FY12E	5.5	4.1	6.0
EV/Sales (x)	FY11E	2.2	1.6	2.8
	FY12E	1.8	1.4	2.3
EV/EBITDA (x)	FY11E	16.9	11.9	128.9
	FY12E	13.4	9.7	23.0

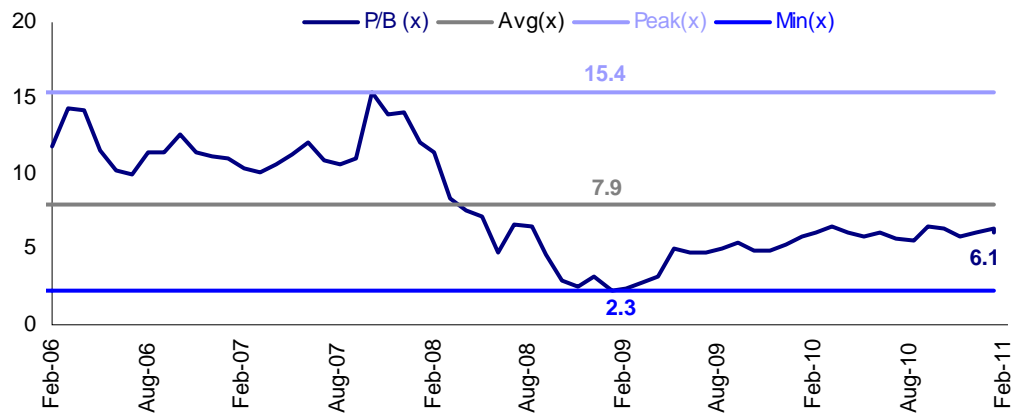
#Siemens-September year ending; *ABB-December year ending

Source: Company/MOSL

Siemens P/E band



Siemens P/BV band



Financials and valuation

Income statement				(Rs Million)		
Y/E September	2008	2009	2010	2011E	2012E	2013E
Total Revenues	85,594	84,502	93,324	120,832	151,767	188,710
Change (%)	8.7	-1.3	10.4	29.5	25.6	24.3
Raw Materials	64,052	57,866	65,711	85,791	107,755	133,984
Staff Cost	4,476	5,499	6,325	7,675	9,211	11,053
SGA Expenses	9,276	10,906	8,356	11,572	14,843	18,560
EBITDA	7,791	10,232	12,932	15,794	19,958	25,113
Change (%)	5	31	26	22	26	26
% of Total Revenues	9.1	12.1	13.9	13.1	13.2	13.3
Depreciation	637	779	1,016	1,158	1,303	1,579
Interest	0	59	106	0	0	0
Other Income	519	635	776	1,100	1,300	1,500
EO Items (net)	1,246	4,289	0	0	0	0
PBT	8,918	14,318	12,587	15,735	19,955	25,034
Tax	2,984	3,870	4,315	5,193	6,585	8,261
Rate (%)	33.5	27.0	34.3	33.0	33.0	33.0
PAT	5,933	10,448	8,271	10,543	13,370	16,773
Adjusted PAT	4,687	6,538	8,271	10,543	13,370	16,773
Change (%)	-9.5	39.5	26.5	27.5	26.8	25.4
Consolidated PAT	5,995	7,046	7,578	10,543	13,370	16,773
Con.Adjusted PAT	4,760	5,545	7,578	10,543	13,370	16,773
Change(%)	-22.3	16.5	36.7	39.1	26.8	25.4

Balance sheet				(Rs Million)		
Y/E September	2008	2009	2010	2011E	2012E	2013E
Share Capital	674	674	674	674	674	674
Reserves	20,017	28,492	34,103	41,886	51,313	63,354
Net Worth	20,691	29,166	34,778	42,560	51,987	64,029
Loans	11	6	2	30	30	30
Net Deferred Tax Liab	-910	-1,119	-1,313	-1,313	-1,313	-1,313
Capital Employed	19,791	28,053	33,467	41,277	50,704	62,746
Gross Fixed Assets	9,911	11,348	13,549	16,549	20,049	24,299
Less: Depreciation	4,339	5,053	6,209	7,367	8,671	10,250
Net Fixed Assets	5,572	6,295	7,340	9,182	11,378	14,049
Capital WIP	870	1,057	2,465	400	400	1,000
Investments	5,236	4,770	3,885	3,885	3,885	3,885
Curr. Assets	57,253	69,212	79,342	102,905	126,323	153,710
Inventory	7,621	9,722	15,335	13,242	16,632	20,681
Debtors	34,328	34,583	33,023	51,312	64,449	80,137
Cash & Bank Balance	9,131	14,449	18,534	28,351	35,242	42,893
Loans & Advances	6,173	10,458	12,449	10,000	10,000	10,000
Current Liab. & Prov.	49,140	53,281	59,565	75,094	91,282	109,898
Creditors	36,002	23,527	29,189	57,933	72,765	90,477
Other Liabilities	5,867	16,129	14,704	0	0	0
Provisions	7,272	13,625	15,672	17,161	18,517	19,421
Net Current Assets	8,113	15,931	19,777	27,811	35,042	43,812
Application of Funds	19,792	28,054	33,468	41,278	50,705	62,747

E: MOSL Estimates

Financials and valuation

Ratios

Y/E September	2008	2009	2010	2011E	2012E	2013E
Basic (Rs)						
EPS	13.9	19.4	24.5	31.3	39.7	49.8
Growth (%)	-9.5	39.5	26.5	27.5	26.8	25.4
Consolidated EPS	14.1	16.5	22.5	31.3	39.7	49.8
Cash EPS	15.8	21.7	27.6	34.7	43.5	54.5
Book Value	61.4	86.5	103.2	126.3	154.3	190.0
DPS	3.0	5.0	5.0	7.0	10.0	12.0
Payout (incl. Div. Tax.)	25.2	30.2	23.8	26.2	29.5	28.2
Valuation (x)						
P/E (Standalone)			34.6	27.1	21.4	17.1
Cash P/E			30.8	24.5	19.5	15.6
EV/EBITDA			20.7	16.9	13.4	10.7
EV/Sales			2.9	2.2	1.8	1.4
Price/Book Value			8.2	6.7	5.5	4.5
Dividend Yield (%)			0.6	0.8	1.2	1.4
Profitability Ratios (%)						
RoE	25.6	26.2	25.9	27.3	28.3	28.9
RoCE	43.3	42.2	41.3	42.1	43.4	44.1
Turnover Ratios						
Debtors (Days)	146	149	129	155	155	155
Inventory (Days)	43	61	85	56	56	56
Creditors. (Days)	154	102	114	175	175	175
Asset Turnover (x)	4.3	3.0	2.8	2.9	3.0	3.0
Leverage Ratio						
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0

Cash flow statement

(Rs Million)

Y/E September	2008	2009	2010	2011E	2012E	2013E
PBT before EO Items	7,672	10,029	12,587	15,735	19,955	25,034
Add : Depreciation	637	779	1,016	1,158	1,303	1,579
Interest	0	59	106	0	0	0
Less : Direct taxes paid	2,984	3,870	4,315	5,193	6,585	8,261
(Inc)/Dec in WC	1,786	-2,500	239	1,783	-339	-1,120
CF from Operations	7,111	4,496	9,632	13,484	14,334	17,232
EO Income	1,246	4,289	0	0	0	0
CF from oper. incl.EO items	8,357	8,785	9,632	13,484	14,334	17,232
(Inc)/dec in FA	-1,509	-1,689	-3,469	-935	-3,500	-4,850
(Pur)/Sale of Investments	-561	467	885	0	0	0
CF from Investments	-2,069	-1,222	-2,584	-935	-3,500	-4,850
(Inc)/Dec in Networth	-605	-209	-882	0	0	0
(Inc)/Dec in Debt	-5	-5	-3	28	0	0
Less : Interest Paid	0	59	106	0	0	0
Dividend Paid	1183	1972	1971	2760	3943	4731
CF from Fin. Activity	-1,793	-2,245	-2,963	-2,732	-3,943	-4,731
Inc/Dec of Cash	4,495	5,318	4,085	9,817	6,891	7,650
Add: Beginning Balance	4,636	9,131	14,449	18,534	28,351	35,242
Closing Balance	9,131	14,449	18,534	28,351	35,242	42,893

E: MOSL Estimates



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Disclosure of Interest Statement

Siemens

1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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