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Siemens India (SIL)

SIL, leading provider of Industry and Infrastructure Solutions in India, has reported mixed performance for year ending September 2006. Topline rose by 65.8% to Rs. 6,032 crore (Rs. 3,638 crore), however, bottomline growth was subdued at 26.7%. PAT (after minority interest) stood at Rs. 391.69 crore (Rs. 309.17 crore).

OPM% dipped to 10.3% (11.9%) owing to :-

© Increase in Raw material prices.

© More contribution from project business (~ 15% of sales from 5% 3 years back), where margins are lower.

© Front end investment expenses booked to execute large order book position, revenues from which will start flowing from FY 2007.

© Profitability of 100% subsidiary, SISL (Siemens Information System) impacted adversely due to change in revenue mix more in favour of group companies and higher R&D spend.

© Margin of SPCNL (Siemens Public Communication Network) was also under pressure.

With investment in infrastructure accelerating, SIL's topline is expected to grow at faster pace, outgrowing industrial growth rate. While company will continue to focus on its base businesses, it will also focus on specific high potential verticals like Water, Airports, and Oil & Gas to garner higher growth levels.

Besides, company now seeks to enlarge its served markets across newer geographies. Just recently, Siemens has bagged largest ever contract worth Rs. 3,600 crore (stand alone sales of Rs. 4,500 crore in FY 2006) for development of power transmission network in Qatar. As on September 30, 2006, Consolidated Unexecuted orders stood at Rs. 8,673 crore (Rs. 4520 crore)

To cater to growing demand and expanding order book position, SIL has lined up huge capital expenditure plans. It is setting up 3 green field plants viz., - in Kalwa for Transformers, in Baroda for Turbines and Traction motor plant.

While above mentioned factors would be driving topline growth, margins are expected to improve, once revenues start flowing from unexecuted order book position. Profitability improvement will be visible from H2 FY 2007 onwards.

Recently, Siemens announced bundling of its worldwide IT business into a new group – Siemens IT Solutions and Services, where SISL has been given greater role. Hence, margins of SISL will improve in future.

Company has decided to divest / sell its 100% stake in SPCNL to Nokia Siemens Network India, 50:50 Nokia Siemens Joint Venture company. Moreover, it has also approved sale / transfer of Enterprise Networks (Com EN) division w.e.f. April1, 2007in favour of 100% subsidiary to be incorporated by Siemens AG in India, consequent to global restructuring of this business.

At CMP of Rs. 1,177/-, share (Rs. 2/- paid up) is trading at 26.2 times FY 2007 expected consolidated EPS of Rs. 45/- and 16.3 times FY 2008 expected consolidated earnings of Rs. 72/-. Company is emerging as pure infrastructure play. In view of optimistic future outlook, we recommend to “HOLD” the share at CMP.