

### RESULTS REVIEW

#### Share Data

Market Cap	Rs. 66.4 bn
Price	Rs. 197.0
BSE Sensex	8,197.92
Reuters	SIEM.BO
Bloomberg	SIEM IN
Avg. Volume (52 Week)	0.2 mn
52-Week High/Low	Rs. 755/186.2
Shares Outstanding	337.2 mn

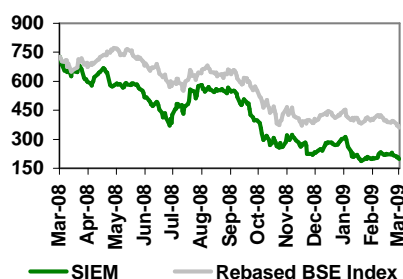
#### Valuation Ratios (Consolidated)

Year to 30 Sept	2009E	2010E
EPS (Rs.)	13.2	14.4
+/- (%)	(25.8%)	8.8%
PER (x)	14.9x	13.7x
EV/ Sales (x)	0.7x	0.6x
EV/ EBITDA (x)	6.8x	6.4x

#### Shareholding Pattern (%)

Promoters	55
FII's	3
Institutions	21
Public & Others	21

#### Relative Performance



### Siemens India Limited

**Hold**

#### Short term headwinds; long term growth intact

In January 2009, Siemens India Limited (SIEM) decided to sell its wholly owned subsidiary Siemens Information System (SISL) to its parent company Siemens AG. We believe SIEM stands to lose from this deal as it received less-than-adequate consideration in exchange for SISL; the deal valued at an EV/Sales of 0.5x, much below the industry average of 1.4x, resulting in a potential loss of value for the investors. Though our near-term outlook for SIEM has weakened following the SISL deal, we believe that the current market price (CMP) of SIEM's stock more than factors the negatives. However, given its technological advantage, a diversified business model, and the strong financial position, we believe the Company is well poised to grow in the long run. Hence, we reiterate our Hold rating on the stock.

**Top line to remain muted in the near term:** We expect net sales to fall ~20% in FY09; excluding SISL, we expect the fall to be in the range of 15-18%. We expect the major segments - Industrial and Power to show a negative growth of ~7% and ~25%, respectively. The Power segment's revenue is likely to fall due to the completion of several big-ticket projects in FY08, and we do not expect any mega order inflows in the near term. Meanwhile, we believe that strong growth in small segments such as Transportation, Healthcare, and BPO will help in cushioning the downside in revenue. However, we expect revenue to grow substantially post FY10 once the orders in the Power segment start coming in from the 12<sup>th</sup> Five Year plan.

#### Key Figures (Standalone)

Quarterly data	Q1'08	Q4'08	Q1'09	YoY%	QoQ%
(Figures in Rs. mn, except per share data)					
Net Sales	19,144	24,216	16,289	(14.9)%	(32.7)%
EBITDA	1,548	3,437	1,702	10.0%	(50.5)%
Adj. Net Profit	1,971	2,252	3,306	67.8%	46.8%

#### Margins(%)

EBITDA	8.1%	14.2%	10.4%
NPM	10.3%	9.3%	20.3%

#### Per Share Data (Rs.)

Adj. EPS	5.85	6.68	9.80	67.7%	46.7%
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**Pressure on margins to ease off:** Higher raw material prices forced the margins to decline in FY08, with the Company unable to pass the increased cost to its customers. However, we expect the pressure on margins to ease off a bit in FY09 on the back of softening raw material prices and the completion of several fixed-price contracts in FY08. Moreover, we believe that the increase in margins due to lower raw material prices will more than offset the effect of divesting the higher-margin business of SISL. Overall, we expect the EBITDA margin to improve from 9.4% to ~10% for FY09.

**Robust balance sheet:** SIEM has a strong balance sheet with a net cash position of Rs. 13 bn, which translates into a net cash per share of Rs. 38.4. Moreover, with a debt-equity ratio at ~zero, we believe the Company will not need to raise fresh debt to fund its operations. The stock is currently trading at a P/B ratio of 2.9x, near its lowest in the last 15 years, and we do not expect a significant downswing from this level.

### Result Highlights and Outlook

#### *Small segment to cushion the fall*

SIEM's Q1'09 revenue declined 14.9% yoy to Rs. 16.3 bn due to a poor performance by the Power segment, which fell 30% yoy after completion of the Qatar project in FY08. However, revenue from the Transportation segment increased by a whopping 51%, cushioning the fall in the overall revenues. We believe the Company's net sales will show negative growth in FY09 due to the weakening performances by the Power and Industrial segments. The global industrial sector has slowed down considerably over the previous few quarters; hence, we expect incremental capital spending by the industries to decrease considerably, leading to muted order inflows for SIEM. On the other hand, we expect the relatively small-sized segments such as Healthcare, Transportation, and BPO to continue to grow appreciably due to increased government spending and their low-cost advantage, thereby providing some respite to the Company's top line. Overall, we expect SIEM's net sales to fall around 15-18% yoy, excluding SISL, in FY09.

### Margins to improve

Q1'09 EBITDA increased 10% yoy to Rs. 1.7 bn, while the EBITDA margin improved 130 bps yoy to 10.4%, mainly on the back of a 480-bps yoy fall in the cost of goods sold. This decrease can be attributed to efficient supply chain management and reduced raw material prices. We expect this trend to continue as raw material prices have declined considerably and some fixed-price contracts of the Company have expired in FY08, thereby providing some respite to the Company.

### Key Events

- The Company received an order of Rs. 2.12 bn from SAIL to provide an extra high voltage power distribution package for the Rourkela Steel Plant, Orissa.

### Valuation

At the CMP, SIEM's stock trades at a forward P/E of 14.9x for FY09E and 13.7x for FY10E earnings. Based on our DCF valuation, assuming a 15.6% WACC and a 5% terminal growth rate, we believe that the stock is fairly valued. Hence, we give a Hold rating.

Terminal growth (in %)	WACC (in %)					
	-	14.6	15.1	15.6	16.1	16.6
3.00		204	198	193	188	184
4.00		216	210	203	198	192
5.00		231	223	216	209	203
6.00		249	239	231	223	215
7.00		272	260	249	239	230

### Key Figures (Consolidated)

Year to Sep.	FY06	FY07	FY08	FY09E	FY10E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY08-10E)

Net Sales	60,323	93,786	96,798	77727*	83491*	(7.1%)
EBITDA	6,551	9,837	9,103	7,806	8,292	(4.6%)
Adj. Net Profit	3,917	6,929	5,995	4,451	4,842	(10.1%)

### Margins(%)

EBITDA	10.9%	10.5%	9.4%	10.0%	9.9%
NPM	6.5%	7.4%	6.2%	5.7%	5.8%

### Per Share Data (Rs.)

Adj. EPS	23.2	20.6	17.8	13.2	14.4	(10.1%)
PER (x)	23.1x	32.9x	22.4x	14.9x	13.7x	

\* Excluding SISL

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