Deutsche Bank

7 December 2006

Siemens India Ltd

Reuters: **SIEM.BO** Bloomberg: **SIEM IN** Exchange: **BSE** Ticker: **SIEM**

Improving quality of earnings

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Results Review

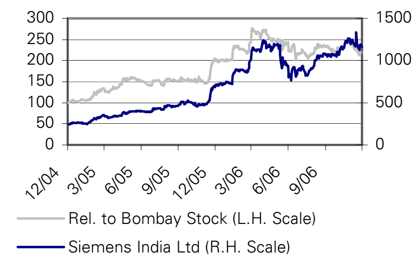
Buy

Price at 6 Dec 2006 (INR)	**1,160.45**
Price target - 12mth (INR)	**1,343.00**
52-week range (INR)	**1,330.65 - 688.67**
Bombay Stock Exchange (BSE 30)	**13,938**

Key changes

Price target	1,196.00 to 1,343.00	↑	**12.3%**
Sales (FYE)	63,077 to 60,323	↓	**-4.4%**
Op prof margin (FYE)	7.5 to 8.1	↑	**7.8%**
Net profit (FYE)	5,291.9 to 3,922.2	↓	**-25.9%**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*-7.7*	*7.5*	*67.6*
Bombay Stock Exchange (BSE 30)	*5.7*	*16.8*	*58.1*

Stock data

Market cap (INRm)	**192,277**
Market cap (USDm)	**4,302**
Shares outstanding (m)	**165.7**
Major shareholders	**–**
Free float (%)	**43**

Key indicators

ROE (%)	**36.1**
Net debt/equity (%)	**-69.3**
Book value/share (INR)	**75.84**
Price/book (x)	**15.3**
Net interest cover (x)	**–**
Operating profit margin (%)	**8.1**

Restructuring-led earnings cut hides improvement in earnings quality - Buy
The street's mixed response to recent events at Siemens Ltd (Siemens India) is an excellent buying opportunity in our view. While Sep-Q order inflows were stronger than expected, weak results from the low-margin communications unit and its proposed divestment has resulted in a cut in headline earnings estimates. However, due to a significantly better earnings mix with a higher RoCE, we are raising our sum-of-the-parts based target price to Rs1343 (+16% upside). Buy.

Stronger-than-expected order inflows; Raising core business' estimates
With an increase in its manufacturing capacity, Siemens India is now getting a bigger share of consortium orders from parent Siemens AG. Due to stronger-than-expected order inflows (+99% y-o-y in FY06), we are raising our EBIT estimates for the core engineering business by 11%, 19% and 8% for FY07-09E, respectively.

Restructuring gets rid of low-margin unit; Core business' share will go up
The proposed sale of its communications unit to Siemens AG and Nokia is a strategically positive step in our view – assuming a fair transfer price (yet to be finalized). This is a low-margin business with unexciting growth prospects for Siemens India given its sub-scale operations. Note that Nokia recently cut its margin guidance by 200 bps due to this acquisition. The core engineering unit's share of total EBITDA will jump from 63% in FY06A to 73% in FY07E.

Valuation & risks
Reducing consolidated EPS by 11% in FY07E and 3% in FY08E mainly due to the sale of the communications unit. However, our sum-of-the-parts value (see pg 3 for more details) is now higher by 12% to Rs1343 due to better earnings mix and elimination of the conglomerate discount applied earlier. **Key risks** include any slippages in order execution, any order lumpiness, and sharp Rupee appreciation.

Forecasts and ratios

Year End Sep 30	2004A	2005A	**2006E**	2007E	2008E
Sales (INRm)	22,159.5	35,938.5	**60,322.6**	77,438.5	110,701.0
EBITDA (INRm)	2,126.1	3,875.7	**6,153.4**	8,013.9	12,432.1
Reported NPAT (INRm)	1,694.0	3,091.6	**3,922.2**	6,142.3	10,107.4
Reported EPS (INR)	10.22	18.66	**23.67**	37.07	61.00
DB EPS FD(INR)	10.22	18.66	**23.67**	37.07	61.00
OLD DB EPS FD(INR)	10.33	19.91	**33.16**	43.44	65.79
% Change	-1.0%	-6.3%	**-28.6%**	-14.7%	-7.3%
DB EPS growth (%)	2.2	82.5	**26.9**	56.6	64.6
PER (x)	17.5	18.6	**49.0**	31.3	19.0
EV/EBITDA (x)	11.0	13.4	**29.8**	22.5	13.9
DPS (net) (INR)	1.80	2.90	**2.90**	8.00	10.00
Yield (net) (%)	1.0	0.8	**0.2**	0.7	0.9

Source: Deutsche Bank estimates, company data

[1]DB EPS is fully diluted and excludes non-recurring items
[2]Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Model updated: 7 December 2006

Equity Research

Asia

India

Industrials/Manufacturing

Siemens India

Reuters code SIEM.BO

Buy

Price as at 06-Dec Rs1,160.45

Target Price Rs1,343.00

Company Website
http://www.siemens.co.in/

Company description

Siemens India Limited

Research Team

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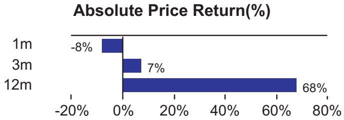
Absolute Price Return(%)



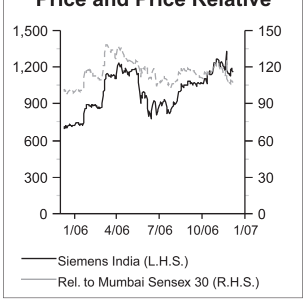
52-week Range:	Rs688.67 - Rs1,330.65
Market Cap (m):	Rs 195,629
	US$ 4,385

Company identifiers

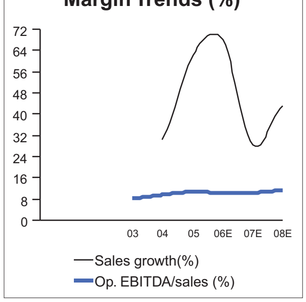
Bloomberg	SIEM IN
Cusip	NA
SEDOL	B15T569

Y/E 30 September	2003	2004	2005	2006E	2007E	2008E
SUMMARY						
Reported EPS (Rs)	10.01	10.22	18.66	23.67	37.07	61.00
P/E ratio (Reported) (x)	6.6	17.6	18.6	49.0	31.3	19.0
Reported EPS growth (%)	nm	2.2	82.5	26.9	56.6	64.6
DB EPS FD (Rs)	10.01	10.22	18.66	23.67	37.07	61.00
P/E ratio (DB) (x)	6.6	17.6	18.6	49.0	31.3	19.0
Operating CFPS (Rs)	15.63	26.70	21.23	39.28	49.39	73.62
Free CFPS (Rs)	15.63	23.21	4.53	21.18	31.29	55.52
P/CFPS (x)	4.2	6.7	16.4	29.5	23.5	15.8
DPS (Rs)	1.50	1.80	2.90	2.90	8.00	10.00
Dividend yield (%)	2.3	1.0	0.8	0.2	0.7	0.9
BV/Share (Rs)	34.47	42.26	55.39	75.84	104.03	153.93
Price/BV (x)	2.62	5.31	9.47	15.30	11.15	7.54
Weighted average shares (m)	166	166	166	166	166	166
Average market cap (Rs m)	10,955	29,771	57,537	195,629	195,629	195,629
Enterprise Value (Rs m)	7,623	23,389	51,753	186,906	183,271	176,007
EV/Sales	0.4	1.1	1.4	3.1	2.4	1.6
EV/EBITDA	5.4	11.0	13.4	30.4	22.9	14.2
EV/EBIT	7.2	14.2	16.2	38.2	28.7	17.4
EV/Operating Capital	3.2	110.1	20.0	61.6	45.0	34.7
INCOME STATEMENT (Rs m)						
Sales revenue	16,973	22,159	35,938	60,323	77,438	110,701
Operating EBITDA	1,412	2,126	3,876	6,153	8,014	12,432
Depreciation	353	476	684	1,259	1,617	2,312
Amortisation	0	0	0	0	0	0
Operating EBIT	1,059	1,650	3,191	4,895	6,397	10,120
Net interest income (expense)	142	176	265	389	389	389
Associates/affiliates	0	0	0	0	0	0
Investment and other income/expense	1,036	804	1,071	593	1,934	3,610
Exceptionals/extraordinaries	0	0	0	0	0	0
Income tax expense	456	936	1,428	1,955	2,556	3,987
Minorities/preference dividends	123	0	9	0	21	25
Net income	1,658	1,694	3,092	3,922	6,142	10,107
CASH FLOW (Rs m)						
Cash flow from operations	2,590	4,424	3,518	6,508	8,184	12,199
Movement in net working capital	0	1,947	-2,779	1,466	-1,150	-3,330
Capex	0	-578	-2,767	-2,999	-3,000	-3,000
Free cash flow	2,590	3,846	750	3,509	5,184	9,199
Other investing activities	0	-378	-376	0	-21	-25
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	0	-403	-662	-533	-1,471	-1,839
Net inc/(dec) in borrowings	0	-2	897	0	0	0
Other financing cash flows	0	-16	-275	-26	-58	-70
Total cash flows from financing	0	-421	-40	-559	-1,529	-1,909
Net cash flow	2,590	3,047	334	2,950	3,634	7,265
Movement in net debt/(cash)	-2,590	-3,050	562	-2,950	-3,634	-7,265
BALANCE SHEET (Rs m)						
Cash and other liquid assets	3,364	6,411	6,745	9,683	13,318	20,582
Tangible fixed assets	2,538	2,579	4,130	5,871	7,253	7,941
Goodwill	0	0	0	0	0	0
Other intangible assets	0	0	0	0	0	0
Associates/investments	30	408	847	847	847	847
Other assets	7,512	8,133	17,908	27,152	36,223	54,669
Total assets	13,444	17,530	29,631	43,553	57,642	84,040
Interest bearing debt	31	29	926	926	926	926
Other liabilities	7,701	10,499	19,455	29,990	39,407	57,537
Total liabilities	7,732	10,528	20,380	30,915	40,332	58,462
Shareholders' equity	5,712	7,002	9,179	12,566	17,237	25,505
Minorities	0	0	72	72	72	72
Total shareholders' equity	5,712	7,002	9,251	12,638	17,309	25,578
Net working capital	0	-1,947	832	-634	516	3,846
Net debt/(cash)	-3,333	-6,382	-5,820	-8,757	-12,393	-19,657
Capital	2,379	620	3,431	3,881	4,917	5,921
RATIO ANALYSIS						
Sales growth (%)	nm	30.6	62.2	67.8	28.4	43.0
Op. EBITDA/sales (%)	8.3	9.6	10.8	10.2	10.3	11.2
Op. EBIT/sales (%)	6.2	7.4	8.9	8.1	8.3	9.1
Payout ratio (%)	15.0	17.6	15.5	12.3	21.6	16.4
ROE (%)	29.0	26.6	38.2	36.1	41.2	47.3
Return on Capital (%)	64.9	105.4	143.7	100.2	133.4	181.4
Operating Return on Capital (%)	35.9	82.9	156.3	116.3	127.3	158.9
Capex/sales (%)	0	2.6	7.7	5.0	3.9	2.7
Capex/depreciation (x)	0	1.2	4.0	2.4	1.9	1.3
Net debt/equity (%)	-58.3	-91.1	-62.9	-69.3	-71.6	-76.9
Net interest cover (x)	nm	nm	nm	nm	nm	nm

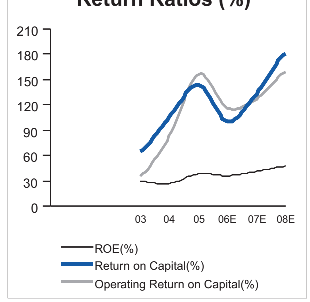
Price and Price Relative



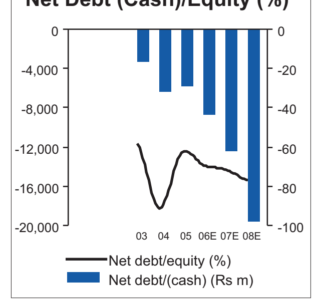
Margin Trends (%)



Return Ratios (%)



Net Debt (Cash)/Equity (%)



Source: Deutsche Bank AG estimates, company data

Investment thesis

Outlook

Siemens India has a strong order book of Rs75bn, implying a book to bill ratio of 1.7x FY06E sales. We note that in FY06, the company has bagged large orders for building power plants from the Torrent group as well as export orders from Qatar General Electricity and Water Corporation.

Going forward, we expect Siemens India to get a greater proportion of orders through consortium bids, and also from sharply higher Indian T&D capex. Excluding export orders, we estimate Siemens India could have a 15% market share of the T&D investments in India in FY07-12E versus less than 6% in FY02-07E. In addition, we estimate that investments driven by the rejuvenated railway sector would also help Siemens India's order book.

Over FY06-09E, we expect Siemens India to report a CAGR growth of 43% in order inflow, 38% in revenues and EBITDA and an earnings growth of 49%.

Valuation

We derived our Rs1343/share price target for Siemens India from our sum-of-the-parts analysis. We have assumed the following valuation multiples to estimate the fair value: The key change that we have done is that we reduced the conglomerate discount to 0% from the earlier assumption of 10%. This is because the proportion of earnings from the engineering business is rising to 75% of consolidated earnings versus 66% in the earlier model. Also, we have valued SPCNL at Rs2bn – the sum that Siemens India paid to acquire the division.

Figure 1: Sum-of-the-parts valuation

Sr No	Business	Benchmark	Enterprise Value (Rs mn)	Value per share (Rs)
A	Power and Automation business	Valued at 12xEV/EBIT-(Discount to ABB as margins are inferior)	122,140	737
B	Medical electronics	EV/EBIT of 7x FY08e (discount to main business as growth as margins are subdued)	630	4
C	Real Estate	EV/E of 8x FY08e(Despite high margin business has low growth)	2,400	14
D	SISL	20x PER as margins and growth is quite high	43,108	260
E	**SPCNL S'Power Engineering**	**Assumed cash inflow equal to cash paid to buy the business**	**2,000**	**12**
F	Other investments	At cost	847	5.1
	Sub-total EV (A)+(B)+(C)+(D)+(E) +(F)		**171,126**	**1032.8**
	Less: Net Debt		(51,333)	(310)
	Equity Value		222,459	1343
	Conglomerate Discount (%)		0	0
	Potential value		**202,459**	**1343**

Source: Deutsche Bank

Risks

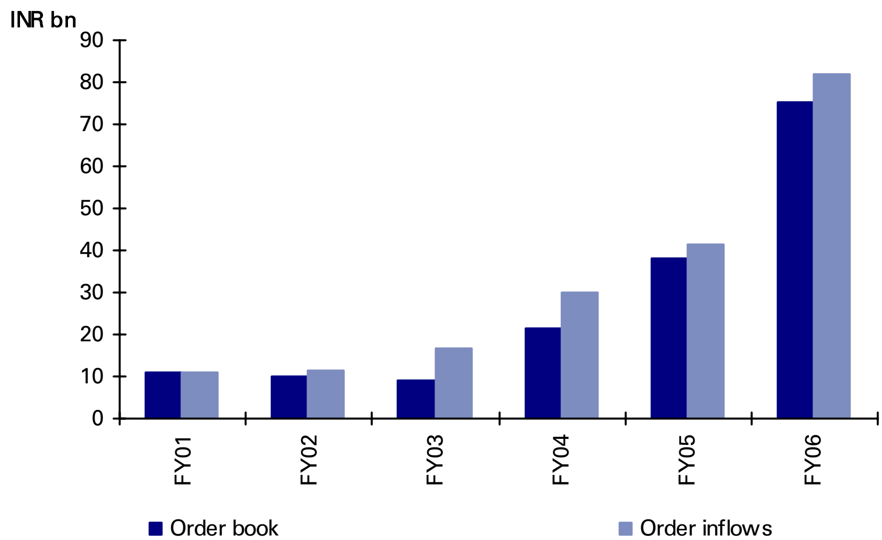
Key risks include near-term margin pressure from increased investments to strengthen its India presence, any slippages in order execution, and order lumpiness (which can cause volatility in quarterly earnings). Any sharp rupee appreciation can hurt revenues/margins from exports (especially given the focus on the Middle East). Note that exports are expected to constitute 55% of revenues in FY07E.

Quality of earnings improve

Order inflows surprise

Order inflows for Siemens India rose 99% y-o-y for FY06 (Sep) driving a 97% y-o-y increase in its order book.

Figure 2: Order Inflow/Order Book (INR bn)



Source: Company, Deutsche Bank

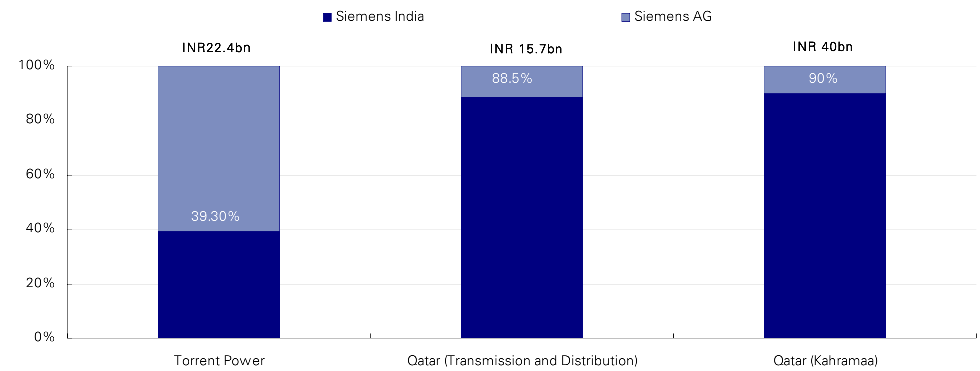
Going forward, the order pipeline is equally robust due to the following:

- A higher share from "consortium" orders
- Significant contribution from the T&D exports space
- Strong visibility in Automation and Railway capex

A higher share from consortium orders

The rising share of "consortium" business (i.e., business that is jointly bid for along with Siemens' German parent or other global partners) in India over the last one year has been a pleasant surprise. Siemens India has been one of the few Indian companies which have consistently demonstrated adequate skill sets for managing large projects, and the increase in manufacturing capacity in recent years has further improved its competitive positioning. This has led to Siemens India being assigned greater portions of the jointly bid projects. In FY06 (Sep), the consortium orders accounted for ~71% of the order inflow for Siemens India.

Figure 3: Rising share from consortium orders



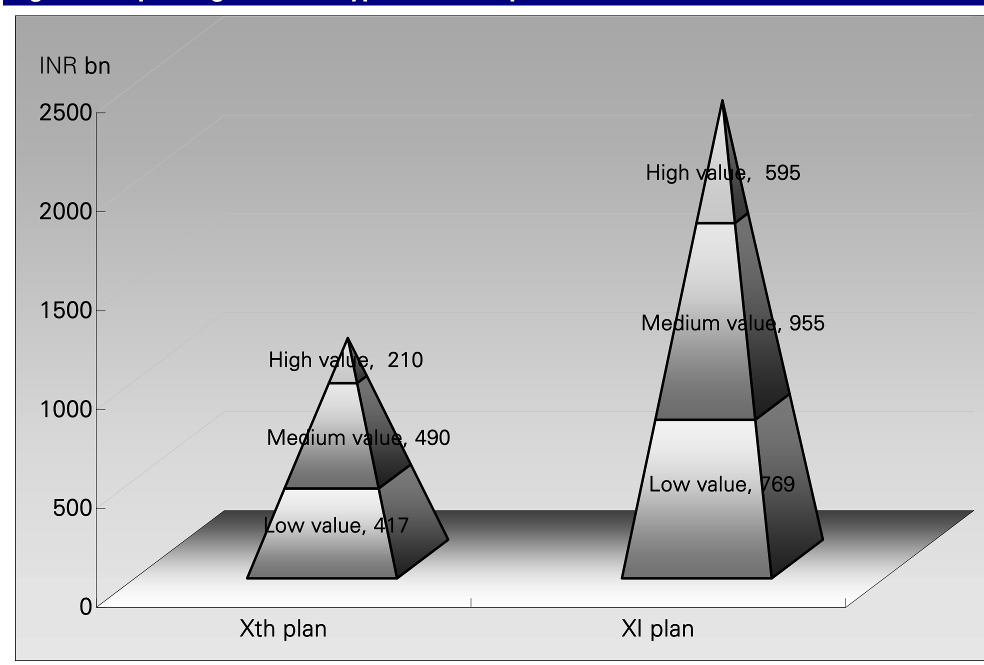
Source: Company ,Deutsche Bank

Significant contribution from T&D exports

As detailed in our sector report (see *India Industrials – Power(ing) ahead unnoticed*, dated Sep 5th, 2006), we expect the Transmission and Distribution (T&D) capex to double over the 11th five-year plan (2007-12E) versus the 10th five-year plan (2002-07E).

Importantly, as stated in our sector note, we expect a paradigm shift in T&D capex as we see a significant jump in capex on high voltage systems and products, accompanied by a considerable drop down in products of lower value and voltages. We note that once systems voltages are raised, T&D losses come down and requirements for conductors, cables as well as transmission towers also come down.

Figure 4: A paradigm shift in type of T&D capex in India



Source: Deutsche Bank, CEA, Planning commission

We have assumed that over the next five years, Siemens India's market share would be 15% in overall T&D capex. Even at a 15% share, we estimate that the order pipeline for Siemens India in T&D will be Rs285bn in CY07-CY11 versus less than Rs70bn in CY02-06, implying a more than 4-fold improvement in the growth outlook.

Strong visibility in automation and railway capex too

We estimate that 15% of total capex (including telecom, private power utilities) by the corporate sector would be for automation products based on our forecast of corporate capex at Rs1,403bn for FY07-08E; we estimate that automation capex requirement for new capacities will be Rs210bn. We estimate Siemens India, with about a 15% market share in the segment, could easily look at orders worth Rs32bn as the order pipeline in its automation division.

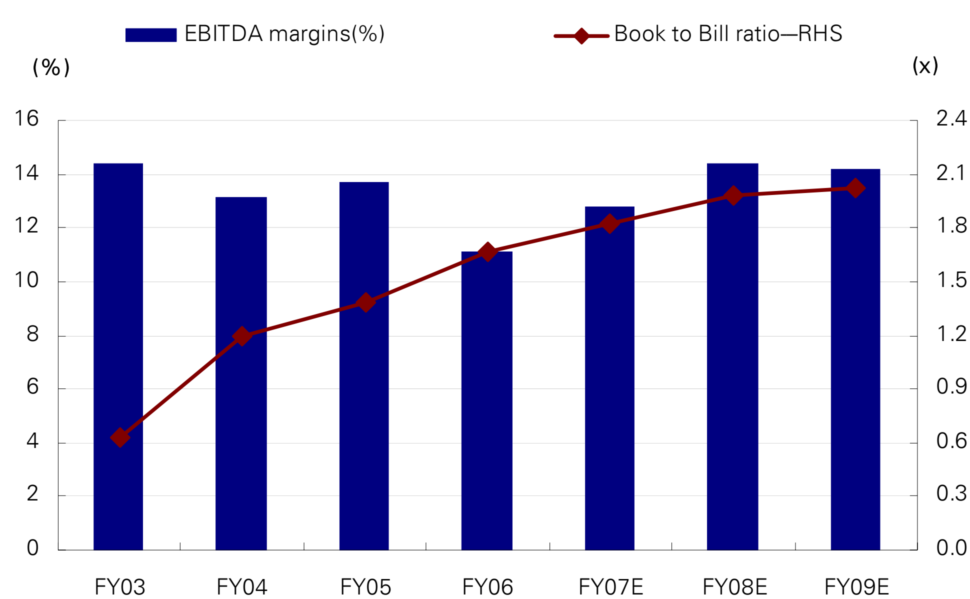
In addition, we believe that capex from the Indian Railways could show a big acceleration. Over the last two years, the Indian Railways has substantially improved the financial performance and is currently generating cash surplus of USD1bn/quarter. Key Initiatives that one can look at Indian Railways are:

- In the near term, the key programme of Indian Railways is electrification for 375 kms, which could entail automation and signal a capex of Rs35bn. Siemens India has a market share of 40% in this segment.
- Over the next five years (FY07-12), the Indian Railways has drawn out a Railway Modernization Plan (IRMP) at a cost of Rs240bn, which amongst others would entail capex on the controls systems for about Rs40bn.
- Finally, development of freight corridors would require investments to the tune of Rs660bn.

Margins should rise

The rising order inflow has resulted in a big growth in the order book, while the revenue recognition cycle is yet to commence. Going forward, we expect that a pickup in revenue recognition should lead to better profit recognition and margins.

Figure 5: Rising book-to-bill ratio to lead to better margins



Source: Company, Deutsche Bank

We note that in FY06, the company bagged several large projects which are expected to reach profit booking stage from FY07 onwards.

Figure 6: Profit booking cycle of orders

Order	Zero Date	Value(INR bn)	Completion period (in months)	Sales Booking Stage	Profit Booking Stage
Torrent Power	4Q05	8.8	32	1Q07	1Q07
Qatar (Kahramaa)	1Q06	13.9	22	4Q06	1Q07
Qatar (Transmission and Distribution)	1Q07	36	16	3Q07	1Q08
Grand Total		**58.7**			

Source: Company, Deutsche Bank

It is important to note that a majority of the orders constituting the order book of INR 75bn will reach their revenue booking stage by 3Q07 and profit booking by 4Q07. This should result in a significant margin improvement in that period.

Increased manufacturing units in house

We also note that so far Siemens India has been outsourcing a large proportion of raw material requirements. The company is now backward integrating by setting up a transformer factory of capacity 13000 MvA at Kalwa (Mumbai) and also enhancing its manufacturing capabilities in-house for medium voltage switchgear. In our opinion, this should strengthen margins further.

Restructuring is positive

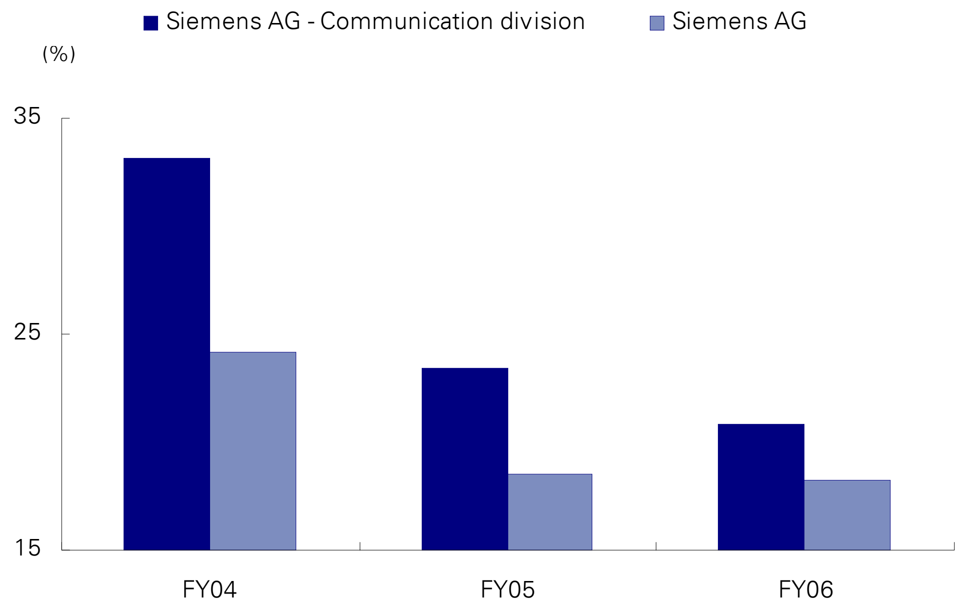
Globally, Siemens' communications division (SPCNL) has given sub-optimal returns and we expect this division to continue performing poorly in the near future. With a greater focus on engineering, we expect improvement in the quality of earnings of Siemens India. Thus, we see the divestment of SPCNL as a value enhancing measure. This is reaffirmed by Nokia's recent downward revision in its earnings guidance for FY07 and FY08, after taking over this business under a joint venture with Siemens AG.

To recap, Siemens India had acquired this unit from Siemens AG at an Enterprise Value of INR 2.02bn on 24th May 2005. This division is now being transferred to a JV between Siemens AG and Nokia, called Nokia Siemens Network.

While the management is yet to indicate a transfer price, we believe that this deal is value accretive on account of the following reasons.

SPCNL has not yet generated returns greater than its cost of capital of the entire business. Telecom equipment cost has come down drastically from over USD1000 per subscriber to less than USD40-60 per subscriber. Over the last five years, the EBIT margins of global majors in this business have shown a diminishing and volatile return.

Figure 7: Declining ROCE from divested business



Source: Company, Deutsche Bank

Also, a look at the ROCE of the global parent in this business suggests that returns have fallen considerably. Primarily due to Nokia's increased exposure to the infrastructure market following the expected start of operations of Nokia Siemens Networks, Nokia has revised its operating margin target to 15% for the next one to two years as against its earlier target of 17% operating margin, set in December 2005.

We note that with the divestment of SPCNL, the profit contribution of Siemens India's core high-growth engineering business is expected to rise from 69% in FY06 to 84% in FY09E.

Revised earnings estimates

We remain quite positive about Siemens India's order inflow as well as margin outlook. While we have not changed our estimates for order inflows for core engineering business, we have reduced our RM/Sales assumptions by 178 bps for FY07E and FY08E.

Engineering Business:

Over FY07E-09E, we forecast Siemens India's sales to grow at a 46% CAGR, EBITDA by 60% and PAT by 58%. Based on our revised estimates, the ROCE goes up by 396 bps in FY07 and 540 bps for FY08E versus our previous estimates.

Figure 8: Key assumptions and forecasts - engineering business

(in Rs mn)	------------Old Estimates----------		------------New Estimates----------		--------Chg (%) Variance (bps)---------	
Particulars	**FY07E**	**FY08E**	**FY07E**	**FY08E**	**FY07E**	**FY08E**
Assumptions						
Order Inflow	116917	169530	116918	169531	0.0	0.0
Order Backlog	134130	205144	134130	205144	0.0	0.0
RM/Sales(x)	0.78	0.78	0.76	0.76	-178 bps	-178 bps
Employee Cost	3543	4606	3863	5022	9.0	9.0
Forecast						
Sales	67137	97349	67137	97349	0.0	0.0
EBITDA	6484	10204	6876	11523	6.0	12.9
EBIT	**5587**	**8904**	**6218**	**10568**	**11.3**	**18.7**
PAT	5190	8216	5296	8661	2.0	5.4
EPS (Rs/Share)	31.32	49.59	31.96	52.27	2.0	5.4
ROE (%)	24.7	27.1	30.9	35.5	614 bps	837 bps
ROIC (%)	42.1	48.3	47.3	57.4	514 bps	917 bps
ROCE (%)	26.7	29.3	27.8	30.9	396 bps	540 bps

Source: Company, Deutsche Bank

Software business

New orders for the division grew by 62% y-o-y, but sales grew by 33% y-o-y. Accordingly, the order backlog grew by 72% y-o-y which should drive the business in FY07.

Figure 9: Earnings snapshot – software business

Particulars(Rs mn)	FY06	FY05	y-o-y (%)
Order Inflow	10748	6642	61.8
Direct sales	8605	6441	33.6
Order Backlog	5215	3038	71.7
PBT	1687	1459	15.6
PBT/Sales (%)	20%	23%	300 bps
PAT	1356	1251	8.4

Source: Company, Deutsche Bank

Going forward, we have marginally cut our forecast for sales in the software business by 1.5% in FY07 and FY08 given the proposed stake sale of the enterprise solution division. This may be a conservative assumption as the order inflow for the division grew by 61% (y-o-y), while the order backlog grew by 71% (y-o-y) – essentially most of the order book may now see a faster conversion to revenues and that could be quite positive for the division.

We have also cut our margin forecasts. Accordingly, the earnings for the division are expected to grow by 32.5% CAGR over the next three years with PAT touching INR 2.15bn by FY08E.

Figure 10: Key forecasts - software business

(in INR mn)	-------------Old Estimates-----------		-------------New Estimates-----------		--------Chg (%) Variance (bps)----------	
Particulars	**FY07E**	**FY08E**	**FY07E**	**FY08E**	**FY07E**	**FY08E**
Sales	10048	13062	9902	12872	-1.5	-1.5
PBT	2153	2799	1775	2449	-17.6	-1.25
PAT	1808	2351	1562	2155	-13.6	-8.3

Source: Company, Deutsche Bank

Consolidated earnings

Based on our revised estimates for the software and engineering division as well as considering the sale of SPCNL and the Enterprise Networks division, our consolidated estimates are as presented below.

Figure 11: Siemens India: key assumptions and forecasts – consolidated business

(in INR mn)	-------------Old Estimates-----------		-------------New Estimates-----------		-------Chg (%) Variance (bps)-------	
Particulars	**FY07E**	**FY08E**	**FY07E**	**FY08E**	**FY07E**	**FY08E**
Assumptions						
RM/Sales (x)	0.69	0.70	0.67	0.68	-223 bps	-208 bps
Employee Cost	8578	10637	9113	11300	6	6
Forecasts						
Sales (INR mn)	88444	123922	77438	110701	-12	-11
EBITDA	10792	16077	9413	14993	-13	-7
EBIT	8983	13543	7796	12681	-13	-6
PAT	7012	10500	6163	10132	-12	-4
EPS (Rs./share)	41.8	62.8	37.07	61.00	-11	-3
ROE (%)	39.8	41.7	41.0	47.1	120 bps	543 bps
ROCE (%)	27.63	28.22	27.33	29.95	-30 bps	173 bps

Source: Company, Deutsche Bank

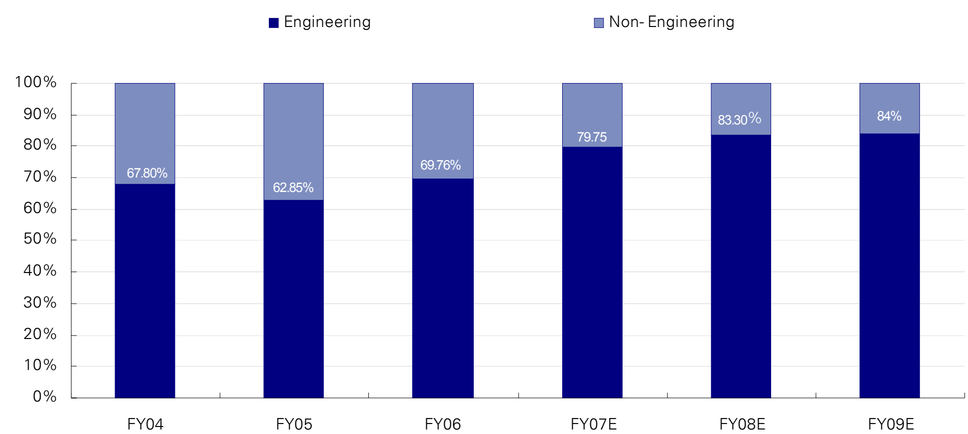
Though these numbers are 12% lower than that of the previous estimates, we point out that they are not entirely comparable given the sharp improvement in the quality of earnings and the restructuring (i.e. sale of some business units).

Valuations and sensitivity

Quality of earnings improving

Based on our revised forecasts, the consolidated EPS growth is estimated at a ~46% CAGR over FY06-FY09E, while that of the core business is estimated to grow by ~56% CAGR. This is one of the highest growth rates in the Indian engineering sector. We note that Siemens India's engineering business has a superior ROCE versus that reported by the consolidated business.

Figure 12: Rising share of profits from Siemens India's core business



Source: Company, Deutsche Bank

Sum-of-the-parts valuation

We are raising our target price for Siemens India from Rs1196 to Rs1343/share based on our sum-of-the-parts analysis. The valuation multiples assumed in estimating the fair value are the same as earlier, and are shown in Figure 13. The change in our target price is driven mainly by a reduction in the conglomerate discount to 0% from the earlier assumption of 10%. This is because the proportion of earnings from the engineering business is now 75% versus 66% in the earlier model. Also, we have valued of SPCNL at Rs2bn – the sum that Siemens India paid to acquire the division.

Figure 13: Sum–of-the-parts Value

Sr No	Business	Benchmark	Enterprise Value (Rs mn)	Value per share (Rs)
A	Power and Automation business	Valued at 12xEV/EBIT-(Discount to ABB as margins are inferior)	122,140	737
B	Medical electronics	EV/EBIT of 7x FY07e (discount to main business as growth as margins are subdued)	630	4
C	Real Estate	EV/E of 8x FY07e(Despite high margin business has low growth)	2,400	14
D	SISL	20x PER as margins and growth is quite high	43,108	260
E	**SPCNL S'Power Engineering**	**Assumed cash inflow equal to cash paid to buy the business**	**2,000**	**12**
F	Other investments	At cost	847	5.1
	Sub-total EV (A)+(B)+(C)+(D)+(E) +(F)		**171,126**	**1032.8**
	Less: Net Debt		(51,333)	(310)
	Equity Value		222,459	1343
	Conglomerate Discount (%)		0	0
	Potential value		**202,459**	**1343**

Source: Deutsche Bank

Comparative valuations with peers

On a comparative basis, Siemens India appears more expensive than its global peers on a headline P/E or EV/EBITDA basis. However, Siemens India's valuations adjusted for growth are attractive.

Figure 14: Comparative Valuation

	6-Dec-06		--------------EV/EBITDA-----------			------------------PE------------------			------EBITDA Margin (%)--------			EPS CAGR
	Price	**Currency**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**	**2007-09e**
Global Companies												
Hyundai Engineering & Construction Co Ltd #	55,800	KRW	14	12	NA	16	14	NA	10	12	NA	NA
Daelim Industrial Co #	79,000	KRW	10	8	NA	11	9	NA	9	11	NA	NA
ABB Ltd #	20	USD	11	10	9	29	23	20	13	15	17	19
Kawasaki Heavy Industries Ltd	414	JPY	11	10	9	23	19	17	6	7	8	14
Mitsubishi Heavy Industries Ltd	499	JPY	14	12	10	40	29	23	6	8	9	32
Siemens AG ##	72	EUR	7	7	6	14	12	11	11	13	13	12
Average of Global Companies			**11**	**9**	**9**	**22**	**18**	**16**	**11**	**12**	**13**	
Indian Companies - Rated												
ABB Ltd India #	3,678	INR	19	13	8	43	30	18	14	14	14	53
Bharat Heavy Electricals	2,621	INR	13	11	8	25	22	17	22	21	21	22
Siemens India Ltd ##	1,160	INR	26	18	11	49	31	19	11	13	14	61
Larsen & Toubro Ltd	1,463	INR	17	14	11	34	29	23	10	10	11	21
Average of Rated Indian Companies			**19**	**14**	**9**	**38**	**28**	**19**	**14**	**14**	**15**	
Indian Companies - Unrated												
Crompton Greaves Ltd	268	INR	16	13	16	26	20	20	9	11	9	15
Gammon India Ltd	468	INR	22	19	NA	35	23	NA	11	13	NA	NA
Thermax Ltd	383	INR	17	13	NA	25	19	NA	13	17	NA	NA
Average of Indian Companies			**19**	**14**	**11**	**34**	**25**	**19**	**13**	**14**	**14**	

Source: Bloomberg, Deutsche Bank, Sep-06is equivalent to March07 and Dec-06 is equivalent to March07

Sensitivity analysis

Our sensitivity analysis (see Figure 15) on the earnings model for Siemens India shows the following:

- A 10% variance in sales recognition can impact earnings by about 12-20% in FY07-FY09E.
- A 1% higher RM/sales ratio would lower earnings by 10-11% in FY07-09E.

Figure 15: Sensitivity Analysis

	FY07e			FY08e			FY09e		
	Sales	**EBITDA**	**PAT**	**Sales**	**EBITDA**	**PAT**	**Sales**	**EBITDA**	**PAT**
Base Case estimates (INR mn)	67137	6876	5296	97349	11523	8661	141156	16552	12187
Sensitivity to Revenue Reorganization cycle									
10% higher than our estimates	73851	8627	6433	107084	13177	9729	155272	18810	13630
Change(%)-y-o-y	10	25	21	10	14	12	10	14	12
10% lower than estimates	60423	5124	4160	87614	9868	7594	127040	14294	10743
Change(%)-y-o-y	(10)	(25)	(21)	(10)	(14)	(12)	(10)	(14)	(12)
Sensitivity to profit reorganization cycle									
RM cost 1% lower than estimates	67137	7547	5749	97349	12496	9328	141156	17963	13148
Change(%)-y-o-y	-	10	9	-	8	8	-	9	8
RM cost 1% higher than estimates	67137	6204	4844	97349	10549	7995	141156	15140	11226
Change(%)-y-o-y	-	(10)	(9)	-	(8)	(8)	-	(9)	(8)

Source: Deutsche Bank

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	**Ticker**	**Recent price***	**Disclosure**
Siemens India Ltd	SIEM.BO	1160.45 (INR) 6 Dec 06	6

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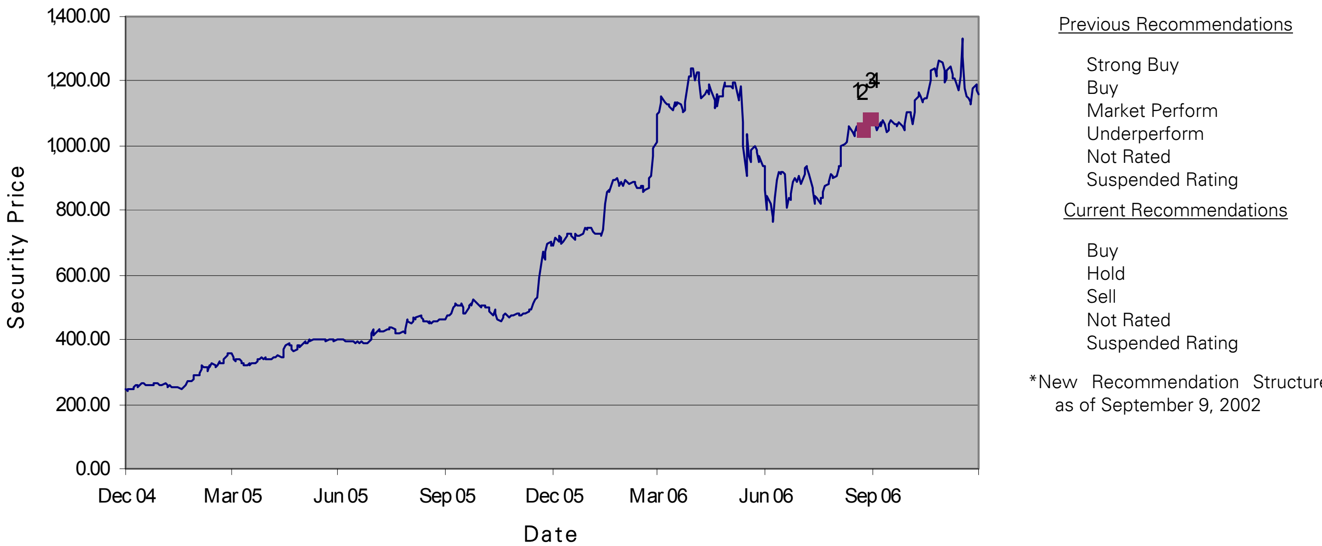
(as of 6/12/2006)



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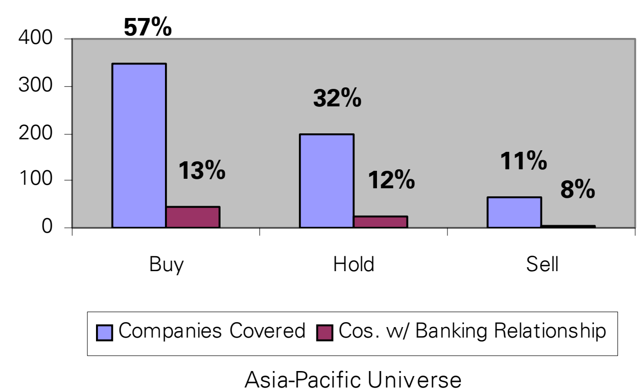

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