

Siemens

Bloomberg: SIEM IN Equity

Reuters: SIEM.BO

Recommendation: BUY

No Change



RESULT UPDATE

Strong earnings outlook

Siemens India, in line with our expectations, posted a 20% drop in earnings in 2QFY10, due to higher base effect on account of completion of a large Qatar order in 2QFY09. For the first half of the year, earnings grew by 26% and we expect the company to show strong earnings growth in 2HFY10E and meet our full – year growth targets.

2QFY10 profit adversely impacted by Rs 700 mn forex-loss

Siemens reported EBITDA margin of 12.9% in 2QFY10 as against 14.6% in same quarter last year. 2QFY10 margins were adversely affected due to forex loss of Rs700mn. It should also be noted that margins in 2QFY09 were very strong due to completion of a Qatar order and certain write-back of provisions made in previous year. For the first half the year, EBITDA margin stood at a strong 15.9% vs. 12.9% in the same period last year. Profit for the quarter grew by a strong 26%.

Muted sales growth; pick up in 2HFY10 expected

Sales growth has been disappointing during the quarter and the year so far. Slowdown is witnessed in energy segment. With bulk of old Qatar orders now completed and pick up in distribution segment still slow, the segment is expected to show only moderate growth in second half of the year. However, the order-book is now encouraging. New orders grew 94% to Rs 74 bn during the first half, boosted by large Rs 25 bn Qatar order, taking the order-book to Rs 34 bn, up 39% yoy. Industry Automation & Drives segment is seeing rapid pick up in volumes, and the order-flow in energy segment has also improved. We expect the company to show very strong sales growth of 29% in FY11E.

Earnings growth will accelerate; maintain buy

We have revised sales for FY10E and FY11E downwards by 7% and 8%, respectively, considering system bottlenecks resulting in delays. However, we broadly maintain earnings outlook as margins have improved significantly and we expect them to remain steady in the second half of the year. The stock currently trade at 22 x FY11E earnings, at discount to other engineering MNC peers, and is not stretched. We maintain buy on the stock.

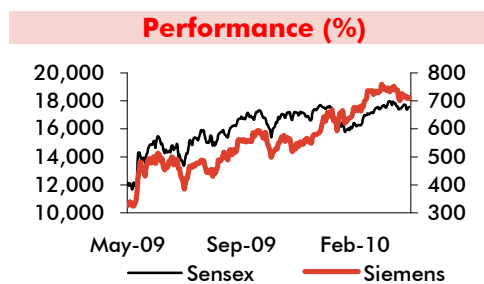
Exhibit 1: Quarterly performance

Y/E Sept (Rsmn)	2QFY10	Gr. (%)	1HFY10	Gr. (%)	FY10E	Gr. (%)	FY11E	Gr. (%)
Op Inc	22,261	-6.6	40,927	1.7	90,985	7.7	117,295	28.9
Total Exp	19,400	-4.6	34,434	-1.7	77,774	4.7	101,160	30.1
EBITDA	2,861	-18	6,493	25.1	13,211	29.1	16,135	22.1
Interest	-117	24.1	-274	5.9	-840	53.9	-1,200	42.9
Depreciation	237	28.9	449	22.8	885	13.8	952	7.5
PBT Reported	2,741	-20.1	6,319	-14	13,166	-8.1	16,384	24.4
PBT, ex-EOI	2,741	-	6,319	-	13,166	31.3	16,384	24.4
Tax	930	-20.8	2,144	20	4,740	22.5	5,734	21
PAT Reported	1,811	-19.7	4,175	-24.9	8,426	-19.4	10,649	26.4
Adjusted PAT	1,811	-19.7	4,175	25.5	8,426	36.8	10,649	26.4
OPM	12.90%	-	15.90%	-	14.50%	-	13.80%	-
EPS (Rs.)	5.4	-19.7	12.4	25.5	25	36.8	31.6	26.4
PE (x)	-	-	-	-	28	-	22	-

Source: Company, Ambit Capital research

Recommendation	
CMP:	Rs712
Target Price (Period): Rs	790
Previous TP: Rs	790
Upside- (%)	11
EPS (FY11E): Rs	31.60
% change from previous	0
Variance from consensus (%)	16

Stock Performance (%)				
	1M	3M	12M	YTD
Absolute	-3.8	10.7	131.1	22.2
Rel. to Sensex	-4.0	3.2	50.1	21.6



Stock Information	
Mkt cap:	Rs240,024mn/US\$5,391mn
52-wk H/L:	766 / 296
Avg. daily vol. BSE (mn):	1
Beta:	1.1
BSE Sensex:	17,559
Nifty:	5,278

Source: Company, Ambit Capital research

Analyst contact

Dhirendra TiwariTel .: + 91-(022) 3043 3241
dhirendratiwari@ambitcapital.com

Exhibit 1: Segmental analysis

Y/E Sept (Rsmn)	2QFY10	2QFY09	Gr. (%)	1HFY10	1HFY09	Gr. (%)
Revenues						
Industry Automation	1,701	1,224	38.9	3,160	2,446	29.2
Drive Technologies	3,573	2,947	21.2	6,743	5,396	25
Building Technologies	1,577	1,205	30.8	2,563	2,276	12.6
Industry Solutions	3,093	2,507	23.4	5,459	4,743	15.1
Mobility	2,812	2,346	19.8	5,937	4,583	29.5
Total Industry	12,756	10,230	24.7	23,862	19,444	22.7
Fossil Power generation	284	840	-66.2	567	1,725	-67.1
Oil & Gas	1,656	1,409	17.5	3,213	2,339	37.3
Power Transmission	5,902	9,759	-39.5	10,631	13,639	-22.1
Power Distribution	2,316	2,297	0.8	4,225	4,265	-0.9
Total Energy	10,158	14,305	-29	18,635	21,969	-15.2
Healthcare	1,678	1,223	37.3	2,997	2,393	25.3
Real Estate	131	183	-28.7	289	335	-13.6
Less: Inter Segment	2,599	2,259	15	5,320	4,170	27.6
Net Sales	22,124	23,682	-6.6	40,465	39,971	1.2

Source: Company, Ambit Capital research

Exhibit 2: EBIT margin

Y/E Sept (%)	1QFY10	1QFY09	1HFY10	1HFY09
Industry Automation	4.1	7.6	7.6	8.4
Drive Technologies	3	7.4	8.7	6.4
Building Technologies	3.1	5	3.6	4.7
Industry Solutions	8.2	9.8	7.8	10.5
Mobility	11.1	-3.2	9.7	-3.1
Total Industry	6.2	5.3	8	5.2
Fossil Power generation	58.2	6.8	51.7	6.8
Oil & Gas	8.4	16.9	13	15
Power Transmission	19.8	21.4	23.4	19.5
Power Distribution	8.2	9.9	8.3	9.6
Total Energy	16.4	18.2	19	16.1
Healthcare	4.4	8.9	4.5	4
Real Estate	51.7	78.1	143.7	82.3
Total	11.7	14.4	14.9	12.3

Source: Company, Ambit Capital research

Exhibit 3: Income statement

Y/E Sept (Rsmn)	FY06	FY07	FY08	FY09	FY10E	FY11E
Net Sales	45,103	77,268	82,955	83,888	90,160	116,445
% yoy growth	64.1	71.3	7.4	1.1	7.5	29.2
Other Operating Income	435	1,463	2,638	615	825	850
% yoy growth	123.2	236.5	80.4	(76.7)	34.2	3.0
Net Revenues	45,538	78,731	85,594	84,502	90,985	117,295
% yoy growth	64.5	72.9	8.7	(1.3)	7.7	28.9
Costs						
Raw material consumed	33,471	60,007	64,052	57,600	60,778	80,934
% of net sales	73.5	76.2	74.8	68.2	66.8	69.0
Employee expenses	2,829	4,045	4,476	5,499	6,396	7,675
% of net sales	6.2	5.1	5.2	6.5	7.0	6.5
Other operating expenses	5,197	7,279	9,276	11,172	10,600	12,551
% of net sales	11.4	9.2	10.8	13.2	11.7	10.7
Total Operating expenses	41,497	71,331	77,803	74,271	77,774	101,160
% of net sales	91.1	90.6	90.9	87.9	85.5	86.2
EBITDA	4,041	7,400	7,791	10,232	13,211	16,135
% yoy change	43.0	83.1	5	31	29	22
% of net sales (OPM)	8.9	9.4	9.1	12.1	14.5	13.8
Less: Depreciation	442	492	637	778	885	952
Financial Expenses Net	-	-	-	59	60	0
Total Other Income	1,456	1,051	519	635	900	1,200
Exceptional Items	-	783	1,246	4,289	-	-
Profit before Tax, before EOI	5,055	7,959	7,672	10,030	13,166	16,384
% of net sales	11.1	10.1	9.0	11.9	14.5	14.0
% yoy change	39.2	57.4	(3.6)	30.7	31.3	24.4
Profit before tax, after EOI	5,055	8,742	8,918	14,319	13,166	16,384
Provision for Tax	1,453	2,777	2,984	3,870	4,740	5,734
Profit after Tax Reported	3,601	5,965	5,933	10,449	8,426	10,649
% of net sales (NPM)	7.9	7.6	6.9	12.4	9.3	9.1
Profit after Tax Adjusted	3,601	5,182	4,687	6,160	8,426	10,649
% of net sales (NPM)	7.7	6.5	5.4	7.2	9.2	9.0
EPS (Rs.)	10.7	15.4	13.9	18.3	25.0	31.6

Source: Company, Ambit Capital research

Exhibit 4: Balance sheet

Y/E Sept (Rsmn)	FY06	FY07	FY08	FY09	FY10E	FY11E
Assets Owned						
Gross block	6,473	8,701	9,911	11,348	12,648	13,598
Depreciation	3,852	4,064	4,339	5,053	5,938	6,890
Net block	2,621	4,637	5,572	6,295	6,710	6,708
Capital WIP	1,542	933	870	1,057	650	400
Investments	4,640	4,676	5,236	4,770	4,770	4,770
Total	8,803	10,246	11,678	12,122	12,129	11,878
Current Assets						
Stock	4,842	7,491	7,621	9,722	9,971	12,854
Stock as No of sales days	39	35	32	42	40	40
Debtors	11,098	23,811	34,328	34,583	38,637	49,810
Debt as No of sales days	89	110	146	149	155	155
Loans, advances	4,168	4,754	6,173	10,458	10,000	10,000
Cash and bank	9,394	4,636	9,131	14,449	23,424	32,889
Total Current Assets	29,502	40,691	57,253	69,212	82,032	105,553
Current Liabilities						
Liabilities	27,690	35,287	49,140	53,281	59,627	75,005
Creditors	16,924	21,515	36,002	40,585	44,869	57,844
Tax payable	-	-	-	-	-	-
Dividends payable	641	809	1,011	1,686	1,971	2,760
Tax on dividend payable	90	138	172	287	286	401
Other current liabilities	7,351	8,489	5,867	-	-	-
Other provisions	2,685	4,337	6,089	10,723	12,500	14,000
No of days (total)	222	164	210	230	239	233
Creditors	136	100	154	175	180	180
Other current liabilities	59	39	25	-	-	-
Other provisions	22	20	26	46	50	44
Working Capital	1,812	5,405	8,113	15,931	22,405	30,548
Deferred tax assets	457	508	1,206	1,457	1,457	1,457
Total assets/capital deployed	11,071	16,159	20,997	29,510	35,991	43,882
Financed by						
Equity share capital	337	337	674	674	674	674
Reserves & surplus	10,534	15,572	20,017	28,492	34,949	42,840
Unsecured loans	20	15	11	6	30	31
Deferred tax liabilities	180	235	296	338	338	338
Total Equity & long term loans/ capital employed	11,071	16,159	20,997	29,510	35,991	43,882

Source: Company, Ambit Capital Research

Exhibit 5: Key ratios

Y/E Sept	FY06	FY07	FY08	FY09E	FY10E	FY11E
EPS (Rs)	10.7	15.4	13.9	18.3	25.0	31.6
EPS growth (%)	41.4	43.9	-9.5	31.4	36.8	26.4
EBITDA margin (%)	8.9	9.4	9.1	12.1	14.5	13.8
EBIT margin (%)	11.2	10.3	9.2	12.0	14.7	14.1
Net margin (%)	8.0	6.7	5.7	7.3	9.3	9.1
ROCE (%)	52.9	58.5	41.3	39.9	40.4	41.0
ROE (%)	38.6	38.7	25.6	24.7	26.0	26.9
Net debt/Equity (%)	-86.2	-29.0	-44.1	-49.5	-65.7	-75.5

Source: Company, Ambit Capital research

Exhibit 6: Valuation

Y/E Sept	FY06	FY07	FY08	FY09E	FY10E	FY11E
PER (x)	66.4	46.2	51.0	38.8	28.4	22.5
PCE (x)	59.2	42.2	44.9	34.5	25.7	20.6
Price/Book (x)	22.0	15.1	11.6	8.2	6.7	5.5
Yield (%)	0.3	0.3	0.4	0.7	0.7	1.0
EV/Net sales (x)	5.1	3.0	2.8	2.7	2.4	1.8
EV/EBITDA (x)	56.9	31.7	29.5	22.0	16.3	12.8

Source: Company, Ambit Capital research

Explanation of Investment Rating

Investment Rating	Expected return (over 12-Month period from date of initial rating)
Buy	>15%
Hold	5% to 15%
Sell	<5%

Disclaimer

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Ambit Capital. AMBIT Capital Research is disseminated and available primarily electronically, and, in some cases, in printed form.

Additional information on recommended securities is available on request.

DISCLAIMER

1. If you are dissatisfied with the contents of this complimentary Report or with the terms of this Disclaimer, your sole and exclusive remedy is to stop using the Report and AMBIT Capital Private Limited ("AMBIT Capital") shall not be responsible and/ or liable in any manner.
2. This Report has been issued by AMBIT Capital for the information of its clients/potential clients only.
3. If this Report is received by any client of an affiliate of AMBIT Capital, in addition to the provisions set out in this Disclaimer, its provision to the recipient is subject to the terms of business in place between the AMBIT Capital and such affiliate.
4. AMBIT Capital is a Stock Broker registered with Securities and Exchange Board of India Limited (SEBI) and so it is regulated by SEBI.
5. This Report is not and should not be construed as an investment advice to any client to acquire, subscribe, purchase, sell, dispose of, retain any securities or an offer to sell or the solicitation of an offer to purchase or subscribe for any investment or as an official endorsement of any investment.
6. If 'Buy', 'Sell', or 'Hold' recommendation is made in this Report such recommendation or view or opinion expressed on investments in this Report is not intended to constitute investment advice and should not be intended or treated as a substitute for necessary review or validation or any professional advice. The views expressed in this Report are those of the analyst which are subject to change and do not represent to be an authority on the subject. AMBIT Capital may or may not subscribe to any and/ or all the views expressed herein.
7. AMBIT Capital makes best endeavour to ensure that the analyst(s) use current, reliable, comprehensive information and obtain such information from sources which the analyst(s) believes to be reliable. However, such information has not been independently verified by AMBIT Capital or the analyst(s).
8. The information, opinions and views contained within this Report are based upon publicly available information and rates of taxation at the time of publication which are subject to change from time to time without any prior notice. Reports may be updated anytime without any prior notice to any and/ or all client(s).
9. AMBIT Capital makes no guarantee, representation or warranty, express or implied; and accepts no responsibility or liability as to the accuracy or completeness or currentness of the information in this Report.
10. Please note that past performance is not necessarily a guide to evaluate future performance.
11. AMBIT Capital and its affiliates and their respective officers directors and employees may hold positions in any securities mentioned in this Report (or in any related investment) and may from time to time add to or dispose of any such securities (or investment).
12. Affiliate(s) of AMBIT Capital may from time to time render advisory and other services to companies being referred to in this Report and receive compensation for the same.
13. AMBIT Capital may act as a market maker or risk arbitrator or liquidity provider or may have assumed an underwriting commitment in the securities of companies discussed in this Report (or in related investments) or may sell them or buy them from clients on a principal to principal basis or may be involved in proprietary trading and may also perform or seek to perform investment banking or underwriting services for or relating to those companies and may also be represented in the supervisory board or on any other committee of those companies.
14. AMBIT Capital may sell or buy any securities or make any investment which may be contrary to or inconsistent with this Report.
15. This Report should be read and relied upon at the sole discretion and risk of the client.
16. The value of any investment made at your discretion based on this Report or income therefrom may be affected by changes in economic, financial and/ or political factors and may go down as well as up and you may not get back the full or the expected amount invested. Some securities and/ or investments involve substantial risk and are not suitable for all investors.
17. This Report is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied in whole or in part, for any purpose. Neither this Report nor any copy of it may be taken or transmitted or distributed, directly or indirectly within India or into any other country including United States (to US Persons), Canada or Japan or to any resident thereof. The distribution of this Report in other jurisdictions may be strictly restricted and/ or prohibited by law, and persons into whose possession this Report comes should inform themselves about such restriction and/ or prohibition, and observe any such restrictions and/ or prohibition.
18. Neither AMBIT Capital nor its affiliates or their directors, employees, agents or representatives, shall be responsible or liable in any manner, directly or indirectly, for views or opinions expressed in this Report or the contents or any errors or discrepancies herein or for any decisions or actions taken in reliance on the Report or inability to use or access our service or this Report or for any loss or damages whether direct or indirect, incidental, special or consequential including without limitation loss of revenue or profits or any loss or damage that may arise from or in connection with the use of or reliance on this Report or inability to use or access our service or this Report.

© Copyright 2006 AMBIT Capital Private Limited. All rights reserved.

Ambit Capital Pvt. Ltd.

Ambit House, 3rd Floor
449, Senapati Bapat Marg, Lower
Parel, Mumbai 400 013, India.
Phone : +91-22-3043 3000
Fax : +91-22-3043 3100