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Takeaways from Siemens analyst meet

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Products and localization are underlying themes

We attended Siemens India (SIEM, not rated) year-end analyst meeting which we believe has implications for the sector. We understand that a diversified business model with greater product sales and higher indigenization should be focus areas for capital goods companies for the next year as per mgt. Sector wide orders from metals, mining, hydrocarbon and cement sectors lag whereas railways could be the outlier next year as factories for locos and coaches are awarded. Mgt highlighted energy efficiency products (drives, motors, relays) will benefit from greenfield capex slowdown, a theme that has played out in FY11 as well, also cost savings on back of increasing localization to help it negate risks to margins as price competition, raw materials prices, and forex are areas of concern for the company.

Key takeaways: Short cycle orders drive flat order backlog

SIEM inflows FY11 (Rs123bn) flat YoY, driven by higher short cycle product orders industry automation, drives, building tech and healthcare (40% of total, 35%YoY) as lack of mega orders dragged energy (-23% YoY). Base level products showed tangible benefits as they contributed 10% of inflows in FY11 versus 5% in FY10, part of the SMART product strategy. Revenues up 28% YoY (Rs119bn), aided again by higher products sales and execution of KAHRAAMA (Rs 25bn Qatar sub-stations) and SUGEN (Torrent Power–BoP for GT 400MW).

Global factories and new product vertical focus areas

Capex plans of Rs16bn FY10-13 are on track. SIEM expects to launch two factories for medium voltage products and power relays in 2QFY12, they will be used as global sourcing for Siemens group. Its 2.3MW wind turbine facility is likely operational by 4QFY13 (delayed), per mgt. New vertical to be created in FY12, 'Infrastructure & Cities' to increase product focus will include mobility and rail systems, Low and medium voltage products, smart grid and building technologies.

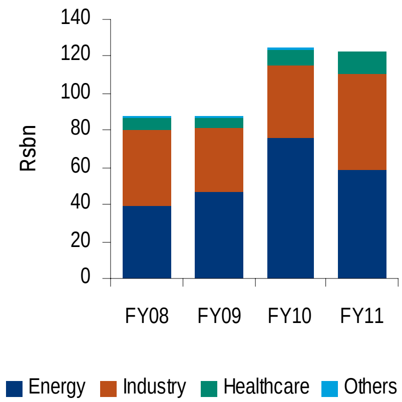
Mgt speak. Margin sustenance will be key as projects slow

Management highlighted slowdown in projects, and uncertainty in pick of capex given the overall macro environment in India. The company said they will continue to introduce low cost (base) products, and will manage margin pressures by cost savings from increased localization by new factories and tech transfer from parent.

Margins impacted. Cost over-runs was a new addition

Cost over-runs (Industry solutions, Oil & Gas); price competition (T&D), higher raw material prices and new employee addition contributed to 300bp margin decline 9.9%. Rs800mn forex gain for FY11 despite a Rs1.6bn loss in 4QFY11. Provisions in FY11 at FY10 levels of about Rs4-4.5bn. Due to lower margins earnings remained flat YoY at Rs8.5bn.

Chart 1: Siemens order inflows by segment



Source: Company

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Flat order inflows despite lack of mega orders and in current macro environment.

FY11 revenues were driven by execution of large orders won in FY10 and strong product sales.

FY11 Margins were impacted by cost over runs, price competition, higher raw material prices and impact of new employee addition. 4Q margin impacted due to Rs1.6bn forex loss.

Higher other income on account of commission from subsidiaries and group companies

Table 1: Siemens result summary

	4QFY11	4QFY10	% Ch YoY	FY11	FY10	% Ch YoY
Order book	139,213	135,839	*2%*	139,213	135,839	*2%*
Order inflow	27,676	30,174	*-8%*	122,886	124,304	*-1%*
Revenues	36,043	30,339	*19%*	119,419	93,152	*28%*
Cost of sales	27,833	24,053	*16%*	90,267	68,474	*32%*
Other expenditure	5,784	2,538	*128%*	17,301	12,595	*37%*
EBITDA	2,426	3,748	*-35%*	11,851	12,084	*-2%*
Margin	*6.7%*	*12.4%*		*9.9%*	*13.0%*	
Depreciation	506	316	*60%*	1,522	1,015	*50%*
Interest income	165	215	*-23%*	755	670	*13%*
Other income	490	271	*81%*	1,666	848	*96%*
PBT	2,575	3,918	*-34%*	12,750	12,587	*1%*
Tax	884	1,382	*-36%*	4,295	4,315	*0%*
Tax rate	*34%*	*35%*		*34%*	*34%*	
Reported PAT	1,692	2,536	*-33%*	8,454	8,272	*2%*
EPS (Rs)	5.0	7.5	*-34%*	24.8	24.5	*1%*

Source: Company

Short cycle products (industry automation, drive and building technologies) have driven industry segment FY11 revenues 27% YoY

Execution of SUGEN (400MW) and KAHRAAMA (Rs25bn) orders aided 51% YoY energy revenues

Healthcare segment benefitted from merger of SHDL

Industry segment margins were impacted by higher raw material prices and partial impact of forex variation

Margins in energy segment were lower due to cost over runs, price competition, increase in raw material costs and large portion of forex loss in 4Q to T&D sector

Healthcare impacted by transfer pricing and price competition

Table 2: Segment performance

	4QFY11	4QFY10	% Ch YoY	FY11	FY10	% Ch YoY
Revenues:						
Industry Automation	2,536	2,091	*21%*	8,691	6,306	*38%*
Drive Technologies	4,534	3,874	*17%*	15,930	8,498	*87%*
Building Technologies	3,304	1,797	*84%*	9,469	5,222	*81%*
Industry Solution	2,893	3,508	*-18%*	11,592	11,607	*0%*
Mobility	2,185	2,493	*-12%*	7,530	10,208	*-26%*
Total Industry	15,452	13,763	*12%*	53,212	41,840	*27%*
Fossil Power Generation	1,921	472	*307%*	5,358	1,292	*315%*
Oil & Gas	3,939	2,155	*83%*	14,208	7,037	*102%*
Power Transmission	9,990	10,399	*-4%*	34,009	28,007	*21%*
Power Distribution	3,429	3,302	*4%*	11,549	6,903	*67%*
Total Energy	19,280	16,328	*18%*	65,124	43,239	*51%*
Healthcare	3,966	2,613	*52%*	10,479	7,537	*39%*
Others	188	122	*54%*	605	536	*13%*
Less Inter segment	2,843	2,487		10,001		
Total Revenues	36,043	30,339	*19%*	119,419	93,152	*28%*
EBIT Margins:						
Industry Automation	*5%*	*12%*		*8%*	*10%*	
Drive Technologies	*4%*	*11%*		*7%*	*13%*	
Building Technologies	*7%*	*8%*		*5%*	*4%*	
Industry Solution	*0%*	*9%*		*5%*	*9%*	
Mobility	*7%*	*8%*		*16%*	*8%*	
Total Industry	*4%*	*10%*		*7%*	*9%*	
Fossil Power Generation	*16%*	*22%*		*10%*	*31%*	
Oil & Gas	*17%*	*23%*		*14%*	*13%*	
Power Transmission	*3%*	*15%*		*12%*	*19%*	
Power Distribution	*2%*	*1%*		*5%*	*8%*	
Total Energy	*7%*	*14%*		*11%*	*16%*	
Healthcare	*5%*	*10%*		*5%*	*7%*	
Others	*69%*	*NA*		*70%*	*81%*	

Source: Company

Capex in FY11 was mainly for new factories, and Rs2bn on account of merger of subsidiaries

Net Working capital increased to 8% of sales in FY11 from just 1% in FY10

Table 3: Standalone Balance sheet

	FY10	FY11
Equity Share Capital	674	681
Reserves & Surplus	34,103	37,481
Shareholders Funds	34,778	38,162
Debt	2	-
Capital Employed	34,780	38,162
Gross Block	13,549	21,914
Less : Accumulated Depreciation	6,209	7,731
Net Block	7,340	14,183
Capital Work in Progress	2,465	-
Deferred Tax Assets	1,313	1,889
Investments	3,885	0
Inventories	6,823	8,078
Sundry Debtors	33,023	41,733
Cash and Bank	18,534	12,750
Loans and Advances	12,449	14,060
Other current assets	8,513	8,883
Total Current Assets	79,342	85,505
Current Liabilities	43,892	45,376
Provisions	15,672	18,039
Total Current Liabilities	59,565	63,415
Net Current Assets	19,777	22,090
Capital Deployed	34,780	38,162

Source: Company

Link to Definitions

Industrials

Click here for definitions of commonly used terms.

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