

Industrials
 Electrical Equipment
 Equity – India

Neutral

Target price (INR)	765.00
Share price (INR)	706.00
Forecast dividend yield (%)	1.0
Potential return (%)	9.4

Note: Potential return equals the percentage difference between the current share price and the target price, plus the forecast dividend yield

Performance	1M	3M	12M
Absolute (%)	-17.1	-17.3	-5.9
Relative ^A (%)	-8.7	-18.9	11.3

Index^A BOMBAY SE IDX

RIC	SIEM.BO
Bloomberg	SIEM IN
Market cap (USDm)	4,623
Market cap (INRm)	240,248
Enterprise value (INRm)	205,185
Free float (%)	31

30 November 2011

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Siemens India

N: De-rating likely as earnings growth moderates

- ▶ **A promising long-term strategy but near-term headwinds likely to moderate earnings growth to c9%/14% in FY12/13e**
- ▶ **Currency fluctuations a key short-term risk, hedging strategy unclear; we lower our FY12/13e EPS by c7%/10%**
- ▶ **At c25.7x FY12e PE, valuation remains rich, modest de-rating likely; maintain N rating, cut TP to INR765 from INR940**

A long-term strategy with near-term headwinds: We recently attended Siemens' analyst meet where management reiterated their long-term strategy of 1) high-tech product innovation with focus on environmental solutions; 2) launch of value-priced SMART products catering to specific needs of emerging markets like India & China; and 3) expansion of local manufacturing & indigenization of products. With these initiatives, Siemens aim to gain market share & drive productivity improvements to support margins. While this long-term strategy appears promising, several headwinds should prevail in the near term, such as weakening demand, pricing pressure, forex fluctuations, commodity prices, & delays in delivery pickups. Siemens remains cautious on the near-term outlook.

Earnings growth likely to taper off further: Given decline in order intake and muted growth in order backlog (c2%) due to the non-repetition of large Energy orders, we believe sales growth is likely to moderate to low double digits going into FY12-13e. In addition, the visibility on growth remains low as Siemens derives c50-55% of its sales from short-cycle orders driven by Industrial and Institutional capex, which is under pressure due to rising interest rates and weakening business sentiment. Also, Siemens' strong EPS growth in two of the past three years has been driven primarily by improvement in margins, which we believe will moderate going forward, driven largely by the normalization of margins in Power Transmission (c33% of group EBIT). Hence, we expect earnings growth to moderate further to c8.5% in FY12e and c14.4% in FY13e.

Currency fluctuations a key short-term risk: Margins in the Q4 results were negatively impacted (c440bps) due to a forex loss of INR1.6bn, which included both actual losses on imports & mark-to-market on currency hedging contracts. As Siemens is a net importer (imports c40% of components; exports c25% of sales), an exchange loss on rupee depreciation implies that either the company has unhedged exposure to imports or has different forward contracts on imports & exports. In either case, we believe that continuing weakness in the INR is likely to impact margins further in Q1.

Lower our FY12/13e EPS by c7%/10%; maintain Neutral rating, cut TP to INR765 from INR940: We are lowering our FY12/13e EPS by c7.4%/c10.2%, driven largely by our reduced revenue expectations (as we were already cautious on margins). On our new estimates, valuation remains rich with the stock trading at c25.7x FY12e PE. We believe the stock is likely to de-rate further as earnings quality has declined, business outlook has deteriorated, and the likelihood of further open offers has diminished. Our target price is derived from our preferred EVA valuation model and implies a 12m fwd target multiple of c24.4x on 24m fwd estimated EPS of INR31.4.

Financials & valuation

Financial statements

Year to	09/2011a	09/2012e	09/2013e	09/2014e
Profit & loss summary (INRm)				
Revenue	119,547	132,016	149,962	166,645
EBITDA	13,522	15,514	17,818	20,074
Depreciation & amortisation	-1,540	-2,250	-2,630	-2,814
Operating profit/EBIT	11,983	13,264	15,188	17,260
Net interest	759	827	934	1,091
PBT	12,901	14,091	16,122	18,351
HSBC PBT	12,742	14,091	16,122	18,351
Taxation	-4,220	-4,791	-5,481	-6,239
Net profit	8,681	9,300	10,640	12,111
HSBC net profit	8,570	9,300	10,640	12,111

Cash flow summary (INRm)

Year to	09/2011a	09/2012e	09/2013e	09/2014e
Cash flow from operations	8,392	10,823	12,223	13,952
Capex	-4,700	-4,700	-4,700	-2,900
Cash flow from investment	-4,700	-4,700	-4,700	-2,900
Dividends	-1,966	-2,379	-2,736	-3,283
Change in net debt	-1,726	-3,744	-4,787	-7,769
FCF equity	3,536	6,123	7,523	11,052

Balance sheet summary (INRm)

Year to	09/2011a	09/2012e	09/2013e	09/2014e
Intangible fixed assets	2,543	3,184	3,658	3,747
Tangible fixed assets	12,776	14,585	16,181	16,177
Current assets	92,009	102,097	116,018	132,277
Cash & others	31,322	35,066	39,853	47,622
Total assets	108,755	121,292	137,284	153,629
Operating liabilities	53,727	59,343	67,430	74,946
Gross debt	3	3	3	3
Net debt	-31,320	-35,064	-39,851	-47,620
Shareholders funds	39,509	46,430	54,335	63,164
Invested capital	43,279	48,627	54,869	58,832

Ratio, growth and per share analysis

Year to	09/2011a	09/2012e	09/2013e	09/2014e
Y-o-y % change				
Revenue	24.3	10.4	13.6	11.1
EBITDA	4.6	14.7	14.9	12.7
Operating profit	6.6	10.7	14.5	13.6
PBT	6.9	9.2	14.4	13.8
HSBC EPS	15.1	8.5	14.4	13.8

Ratios (%)

Year to	09/2011a	09/2012e	09/2013e	09/2014e
Revenue/IC (x)	2.8	2.7	2.7	2.8
ROIC	20.2	19.6	19.8	21.0
ROE	21.7	20.0	19.6	19.2
ROA	8.6	8.1	8.2	8.3
EBITDA margin	11.3	11.8	11.9	12.0
Operating profit margin	10.0	10.0	10.1	10.4
EBITDA/net interest (x)				
Net debt/equity	-79.3	-75.5	-73.3	-75.4
Net debt/EBITDA (x)	-2.3	-2.3	-2.2	-2.4
CF from operations/net debt				

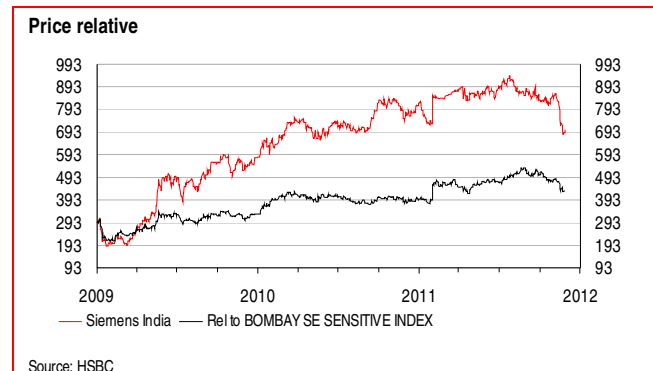
Per share data (INR)

Year to	09/2011a	09/2012e	09/2013e	09/2014e
EPS reported (fully diluted)	25.61	27.45	31.40	35.74
HSBC EPS (fully diluted)	25.29	27.45	31.40	35.74
DPS	6.00	6.90	8.28	9.52
Book value	116.60	137.02	160.35	186.41

Valuation data

Year to	09/2011a	09/2012e	09/2013e	09/2014e
EV/sales	1.7	1.6	1.3	1.2
EV/EBITDA	15.5	13.2	11.2	9.6
EV/IC	4.8	4.2	3.7	3.3
PE*	27.9	25.7	22.5	19.8
P/Book value	6.1	5.2	4.4	3.8
FCF yield (%)	1.5	2.5	3.1	4.6
Dividend yield (%)	0.8	1.0	1.2	1.3

Note: * = Based on HSBC EPS (fully diluted)



Note: price at close of 28 Nov 2011

Key takeaways from Siemens's analyst meet

Business strategy

- ▶ India remains a key area of focus for growth in the parent group, Siemens AG (SIEGn.DE, EUR71.26, rated Overweight by Colin Gibson). The company is keen to gain market share and drive sales growth in India, as well as expand the manufacturing footprint and drive cost optimization. India now is at par with China in terms of focus within the group.
- ▶ The company has three-fold strategy for growth: 1) Continue to innovate in the high-end, high-tech segment of the market (eg launch of 1200kV circuit breaker, the first of its kind globally); 2) launch of a wide range of value-priced products (c60 in total) to cater to specific needs of emerging markets like India and China; and 3) expand the local manufacturing footprint, indigenise product portfolio (design, engineering, production, servicing, and support), and make India a global sourcing hub.
- ▶ New product innovation is focused mainly on three areas: 1) high-end products, such as GIS substations, 1200kV AC substation equipments, reverse osmosis equipment for water purification, eg; 2) value-priced SMART products; c10 of 60 products have already been launched, and the company aims to generate about EUR1bn in sales from these products by 2020; and 3) environmental solutions, such as renewables portfolio (Wind & Solar) or the energy-efficient aspect of other equipment (currently c30% of sales coming from environment-related solutions).
- ▶ In addition to product launches, Siemens remains focused on consolidating its operations/subsidiaries to drive operational synergies, focus on vertical expertise, and start offering value-added services

Business performance/outlook

- ▶ Weakness in order intake was driven largely by non-repetition of large Energy orders, excluding which, the intake was up c25% y-o-y in FY11. Rising interest rates led to a liquidity crunch and had an impact on orders at the end of the fiscal year (Sept '11). Demand appears likely to cool off going into FY12.
- ▶ The short-cycle orders, particularly in Industry Automation and Drive Technology, remained strong in FY11, while demand in the Mobility business remained muted. Capex in several long-cycle industries, such as Steel, Mining, Cement, and Marine, has slowed. Overall, order intake in the Industry division grew c35%.
- ▶ Most of the Railway projects have been delayed by more than two years; however, the company expects one of these projects at Manipur to be opened next month. The project is likely to be awarded on a public-private partnership (PPP)-based model with the government having c26% stake in the SPV. If won, the project will be booked in the Mobility division.
- ▶ Order intake in the Energy division declined c24%, and visibility on further large projects remains opaque. Siemens has not seen much improvement on the ground in terms of large energy projects. Excluding large projects, base orders grew c11%, and Siemens noted that they gained market share in this segment.
- ▶ Overall, there is little demand for projects business and little visibility on the short-cycle business. Management believe that the business environment can weaken further going forward, and any clarity will emerge after only a few months.

Competition/profitability

- ▶ **Industry:** Competition remains benign in the Industry Automation and the Drive Technology businesses; not seeing much pricing pressure here. The margins in this division were adversely impacted by commodity prices, cost overruns (particularly in Industry Solutions, due to delay in delivery pickups & issues with suppliers), and the negative impact of the merger with a subsidiary.
- ▶ **Energy:** We believe prices in the T&D sector have bottomed out, as any further decline in pricing will make the business commercially unviable. We expect Chinese players to struggle with the local manufacturing of 'quality' products. Margins in this division have been impacted by commodity prices, exchange fluctuations, sales mix (low margin on large orders), delay in delivery pickups, and pricing pressure in both transmission and distribution markets.
- ▶ **Healthcare:** Margins have been impacted by both pricing pressure and transfer pricing. The merger of SHDL has lowered the divisional margins, but management expects margins will improve as the business ramps up and cost synergies are realized.
- ▶ **Localization** is expected to drive margins in the future. Management did not provide any guidance on future profitability but noted that their experience suggests that over the years, localization can bring down costs by c30%.

Capacity expansion

- ▶ On track to spend about INR16bn to build new factories, upgrade existing ones, launch value-priced products, and make India a global sourcing hub.
- ▶ Opening two new factories in Goa (one for Electro-mechanical relays and one for ring main units, or RMUs). Production of these products will be centralized in Goa and will cater to global demand.
- ▶ Wind turbine factory in Gujarat is running ahead of schedule and is likely to be commissioned by Q4 FY12.

New divisional structure

- ▶ Going forward, Siemens will divide its operations into four main business segments: Industry, Energy, Healthcare, and Infrastructure & Cities.
- ▶ **Energy** will consist of Fossil Gen, Oil & Gas, Power Transmission, and Wind and Solar.
- ▶ **Industry** will consist of Industrial Automation, Drive Technology, Customer Services, and Metals Technology.
- ▶ **Healthcare** will consist of Imaging & Therapy, Clinical Products, and Diagnostics.
- ▶ **Infrastructure & Cities** will consist of Rail Systems, Mobility, Low & Medium Voltage Products, Smart Grid, and Building Technologies.

Summary of Q4 FY11 results

Siemens India: Stand-alone (INRm)

(Sept year-end)	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11a	Q4FY11e	BB cons Q4FY11e	Act vs. HSBC	Act vs. cons
Net sales	30,339	25,254	30,337	27,785	36,043	34,502	35,131	4.5%	2.6%
EBITDA	4,019	3,627	4,449	2,503	2,916	4,324	4,490	-32.6%	-35.0%
Profit before tax	3,918	3,651	4,234	2,288	2,575	4,282	4,325	-39.9%	-40.5%
Net income	2,534	2,438	2,777	1,548	1,692	2,779	2,851	-39.1%	-40.7%
EPS	7.5	7.2	8.2	4.5	5.0	8.2	8.1	-39.1%	-38.6%
Margins & trend									
Sales growth	22%	38%	37%	24%	19%	14%	16%	5.1%	3.0%
EBITDA margin	13.2%	14.4%	14.7%	9.0%	8.1%	12.5%	12.8%	(444)	(469)
PBT margin	12.9%	14.5%	14.0%	8.2%	7.1%	12.4%	12.3%	(527)	(517)
NI margin	8.4%	9.7%	9.2%	5.6%	4.7%	8.1%	8.1%	(336)	(342)

Source: Source: Company data, Bloomberg, HSBC

Changes to our FY12-14 estimates

Siemens India: Full-year forecasts summary (INRm)

(Sept year-end)	FY11	New forecasts			Old forecasts		Change in f/c		
		FY12e	FY13e	FY14e	FY12e	FY13e	FY12e	FY13e	
Order backlog	139,213	148,741	169,011	195,555	173,026	197,172	-14.0%	-14.3%	
Net sales	119,547	132,016	149,962	166,645	140,079	166,131	-5.8%	-9.7%	
Clean EBITDA	13,522	15,514	17,818	20,074	16,645	19,574	-6.8%	-9.0%	
Reported EBITDA	13,522	15,514	17,818	20,074	16,645	19,574	-6.8%	-9.0%	
Clean EBIT	11,983	13,264	15,188	17,260	14,209	16,809	-6.7%	-9.6%	
Reported EBIT	11,983	13,264	15,188	17,260	14,209	16,809	-6.7%	-9.6%	
Other income	160	0	0	0	0	0			
Net financials	1,316	1,586	1,761	2,025	813	935			
Profit before tax	12,901	14,091	16,122	18,351	15,022	17,744	-6.2%	-9.1%	
Income tax	(4,220)	(4,791)	(5,481)	(6,239)	(5,108)	(6,033)			
Extraordinary items	0	0	0	0	0	0			
Income from JVs	0	0	0	0	85	85			
Minorities	0	0	0	0	(10)	(10)			
Clean net income	8,570	9,300	10,640	12,111	9,990	11,786	-6.9%	-9.7%	
Reported net income	8,681	9,300	10,640	12,111	9,990	11,786	-6.9%	-9.7%	
Clean EPS	25.3	27.4	31.4	35.7	29.6	35.0	-7.4%	-10.2%	
Reported EPS	25.6	27.4	31.4	35.7	29.6	35.0	-7.4%	-10.2%	
DPS	6.0	6.9	8.3	9.5	6.3	7.6	9.1%	9.1%	
Margins & trend									
Sales visibility (yrs)	1.2	1.1	1.1	1.2	1.2	1.2	-8.8%	-5.0%	
Sales growth	24%	10%	14%	11%	17%	19%	-6.7%	-5.0%	
Clean EBITDA mgn	11.3%	11.8%	11.9%	12.0%	11.9%	11.8%	-0.1%	0.1%	
Reported EBITDA mgn	11.3%	11.8%	11.9%	12.0%	11.9%	11.8%	-0.1%	0.1%	
Clean EBIT mgn	10.0%	10.0%	10.1%	10.4%	10.1%	10.1%	-0.1%	0.0%	
Reported EBIT mgn	10.0%	10.0%	10.1%	10.4%	10.1%	10.1%	-0.1%	0.0%	
PBT mgn	10.8%	10.7%	10.8%	11.0%	10.7%	10.7%	-0.1%	0.1%	
Clean NI mgn	7.2%	7.0%	7.1%	7.3%	7.1%	7.1%	-0.1%	0.0%	
Reported NI mgn	7.3%	7.0%	7.1%	7.3%	7.1%	7.1%	-0.1%	0.0%	

Source: Company data, HSBC

Segment results

Segment India: Sales, stand-alone (INRm)

	Q410	FY10	Q111	Q211	Q311	Q411	FY11
Industry							
Industry Automation	2,091	6,777	1,897	2,177	2,082	2,536	8,691
Drive Technologies	3,874	13,772	3,090	4,644	3,662	4,534	15,930
Building Technologies	1,797	5,794	1,596	2,355	2,214	3,304	9,469
Industry Solutions	3,508	11,890	2,917	2,729	3,052	2,893	11,592
Mobility	2,493	10,208	2,672	1,408	1,266	2,185	7,530
Total Industry	13,763	48,441	12,172	13,313	12,276	15,452	53,212
Energy							
Fossil Power generation	472	1,295	571	1,356	1,510	1,921	5,358
Oil & Gas	2,155	7,044	3,241	3,631	3,397	3,939	14,208
Power Transmission	10,399	29,225	6,952	9,629	7,438	9,990	34,009
Power Distribution	3,302	9,506	2,740	2,932	2,448	3,429	11,549
Total Energy	16,328	47,071	13,503	17,548	14,794	19,280	65,124
Healthcare	2,613	7,537	1,438	2,565	2,509	3,966	10,479
Real Estate	122	536	125	131	162	188	605
Intersegment revenue	(2,487)	(10,432)	(1,984)	(3,220)	(1,955)	(2,843)	(10,001)
Total	30,339	93,152	25,254	30,337	27,785	36,043	119,419

Source: Company Data, HSBC

Siemens India: Segment sales growth

	Q410	FY10	Q111	Q211	Q311	Q411	FY11
Industry							
Industry Automation	17.6%	24.8%	30.0%	28.0%	36.4%	21.3%	28.2%
Drive Technologies	-1.4%	17.9%	-2.5%	30.0%	16.0%	17.1%	15.7%
Building Technologies	10.7%	14.9%	61.8%	49.4%	54.3%	83.9%	63.4%
Industry Solutions	-20.7%	3.4%	23.3%	-11.8%	4.4%	-17.5%	-2.5%
Mobility	-15.1%	-0.5%	-14.5%	-49.9%	-28.8%	-12.4%	-26.2%
Total Industry	-6.3%	10.3%	9.6%	4.4%	13.5%	12.3%	9.8%
Energy							
Fossil Power generation	-73.0%	-69.4%	101.5%	378.0%	491.4%	306.6%	313.9%
Oil & Gas	7.9%	25.1%	108.2%	119.2%	102.6%	82.8%	101.7%
Power Transmission	99.9%	18.2%	47.0%	63.2%	-9.2%	-3.9%	16.4%
Power Distribution	23.4%	7.5%	43.6%	26.6%	23.6%	3.9%	21.5%
Total Energy	40.4%	8.4%	59.3%	72.7%	22.2%	18.1%	38.4%
Healthcare	37.5%	38.8%	9.0%	52.9%	30.2%	51.8%	39.0%
Real Estate	-26.9%	-17.9%	-21.5%	0.1%	30.1%	53.9%	12.9%
Intersegment revenue	-30.2%	9.5%	-27.1%	23.9%	-25.5%	14.3%	-4.1%
Total	22.2%	11.0%	37.7%	37.1%	24.3%	18.8%	28.2%

Source: Company Data, HSBC

Siemens India: Segment EBIT, stand-alone (INRm)

	Q410	FY10	Q111	Q211	Q311	Q411	FY11
Industry							
Industry Automation	249	631	181	213	164	117	674
Drive Technologies	437	1,094	202	331	310	200	1,043
Building Technologies	138	231	21	105	122	225	473
Industry Solutions	306	1,097	214	265	78	(6)	551
Mobility	207	858	704	221	119	149	1,192
Total Industry	1,337	3,911	1,321	1,136	791	685	3,934
Energy							
Fossil Power generation	102	400	110	223	(86)	306	552
Oil & Gas	498	936	409	575	337	673	1,994
Power Transmission	1,580	5,189	1,289	1,412	931	319	3,951
Power Distribution	41	528	208	306	25	61	600
Total Energy	2,220	7,053	2,016	2,516	1,206	1,359	7,098
Healthcare	258	519	17	252	32	215	516
Real Estate	(113)	433	8	195	94	129	426
Unallocable/exceptional income	-	-	-	-	-	-	-
Total	3,703	11,917	3,362	4,100	2,123	2,389	11,974

Source: Company Data, HSBC

Siemens India: Segment EBIT margin

	Q410	FY10	Q111	Q211	Q311	Q411	FY11
Industry							
Industry Automation	11.9%	9.3%	9.5%	9.8%	7.9%	4.6%	7.8%
Drive Technologies	11.3%	7.9%	6.5%	7.1%	8.5%	4.4%	6.5%
Building Technologies	7.7%	4.0%	1.3%	4.5%	5.5%	6.8%	5.0%
Industry Solutions	8.7%	9.2%	7.3%	9.7%	2.5%	-0.2%	4.8%
Mobility	8.3%	8.4%	26.3%	15.7%	9.4%	6.8%	15.8%
Total Industry	9.7%	8.1%	10.9%	8.5%	6.4%	4.4%	7.4%
Energy							
Fossil Power generation	21.5%	30.9%	19.2%	16.4%	-5.7%	15.9%	10.3%
Oil & Gas	23.1%	13.3%	12.6%	15.8%	9.9%	17.1%	14.0%
Power Transmission	15.2%	17.8%	18.5%	14.7%	12.5%	3.2%	11.6%
Power Distribution	1.3%	5.6%	7.6%	10.4%	1.0%	1.8%	5.2%
Total Energy	13.6%	15.0%	14.9%	14.3%	8.2%	7.1%	10.9%
Healthcare	9.9%	6.9%	1.2%	9.8%	1.3%	5.4%	4.9%
Real Estate	-92.3%	80.8%	6.3%	149.0%	58.1%	68.9%	70.4%
Total	12.2%	12.8%	13.3%	13.5%	7.6%	6.6%	10.0%

Source: Company Data, HSBC

Valuation

Driven by a sluggish growth outlook and added concerns regarding the impact of currency volatility on margins, we have taken a cautious view on through-cycle margins. Consequently, we are reducing the through-cycle assumption in our EVA valuation model to c11% (in line with our FY13 margin estimate), compared with c12% earlier. This, coupled with declines in our sales estimates, has driven the cut in our 12-month target price to INR765 from INR940. We derive our target price from our preferred EVA valuation methodology, assuming target sales growth of c9%, through-cycle operating return margin of c11%, and WACC of c11.7%. Our target price implies that 12 months from now, the stock should be trading at a 12-month forward PE of c24.4x on 24 month forward EPS of INR31.4.

Under our research model, for stocks without a volatility indicator, the Neutral rating band is 5ppt above and below the hurdle rate for Indian stocks of 11%, or 6-16% around the current share price. Our new 12-month target price of INR765 suggests a potential return of 9.4%, which is within the Neutral rating band; hence, we reiterate our Neutral rating on the stock. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

Risks

We highlight the key risks related to our investment case for SIEM:

Upside risks

- ▶ Significant order wins
- ▶ Better-than-expected improvement in margins

Downside risks

- ▶ Delay/cancellation of domestic transmission projects
- ▶ Excessive pricing pressure
- ▶ Negative impact of currency fluctuations

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), and/or strategist(s) who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and/or any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Rahul Garg

Important disclosures

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This report addresses only the long-term investment opportunities of the companies referred to in the report. As and when HSBC publishes a short-term trading idea the stocks to which these relate are identified on the website at www.hsbcnet.com/research. Details of these short-term investment opportunities can be found under the Reports section of this website.

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Rating definitions for long-term investment opportunities

Stock ratings

HSBC assigns ratings to its stocks in this sector on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However, stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

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As of 29 November 2011, the distribution of all ratings published is as follows:

Overweight (Buy)	55%	(26% of these provided with Investment Banking Services)
Neutral (Hold)	34%	(22% of these provided with Investment Banking Services)
Underweight (Sell)	11%	(14% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities

Siemens India (SIEM.BO) Share Price performance INR Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Overweight	25 January 2011
Overweight	Restricted	31 January 2011
Restricted	Overweight	07 June 2011
Overweight	Neutral	29 June 2011
Target Price	Value	Date
Price 1	950.00	25 January 2011
Price 2	Restricted	31 January 2011
Price 3	950.00	07 June 2011
Price 4	985.00	29 June 2011
Price 5	940.00	11 October 2011

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
SIEMENS INDIA	SIEM.BO	706.00	28-Nov-2011	4

Source: HSBC

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SIEMENS INDIA

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