

## Overall strong performance on all fronts...

Siemens Ltd (Siemens) reported consolidated revenue at ₹ 3483.7 crore, up 22.8% YoY amid a low base. Gas & power, smart infrastructure, digital industries, mobility segments contributed ~34%, ~32%, 22%, 7%, respectively. EBITDA came in at ₹ 457.8 crore with EBITDA margin of 13.1% (vs. ₹ 8.5% in Q2FY20) supported by reduced employee and other expenses. Sequentially, EBITDA margins improved 60 bps. PAT came in at ₹ 321.9 crore, up 83% YoY on a low base owing to superior performance in key segments. Order inflows came in at ₹ 3309 crore, up 16.9% YoY led by order growth across all businesses. Order backlog was healthy at ₹ 12677 crore.

## Digital industries, smart infra, mobility to drive future growth...

Overall revenue growth was driven by gas & power (energy) segment, which grew 16% to ₹ 1191.3 crore, Smart infrastructure grew 48.5% to ₹ 1150.1 crore, digital industries revenue grew 50.3% to ₹ 791.7 crore while mobility revenue grew 1.3% YoY to ₹ 258.9 crore. It witnessed increased demand in power transmission, digital grid and distribution systems. Digital industries business saw growth in machine tool and process automation. We believe **grid stability & reliability** will be the main focus areas driving the business in gas & power, **smart infrastructure** business. **Digital industries** (process, discrete) segment would benefit from expected revival of manufacturing capex. **Mobility** would be driven by capex in railways, high speed rail, metros. Overall, we believe Siemens's growth will be driven by **digital industries, mobility, smart infrastructure, which is expected to grow at ~17%, ~13%, ~17% CAGR, respectively, in FY21E-23E.**

## Segment mix, operational efficiencies to drive superior margins

EBIT margins across segments improved sequentially. Gas & power reported EBIT margin of 15.1%, which improved 250 bps QoQ. Smart infrastructure EBIT margin was at 8.6% (vs. 7.5% QoQ). Mobility segment EBIT margin improved 30 bps to 11.2% QoQ while digital industries EBIT margin declined 170 bps to 8.7% QoQ aided by better contribution from products and services side. Siemens continues to focus on profits over revenue by range of **rationalisation and enrichment efforts for product mix to enhance market share.** We believe EBITDA margins will further improve from 10.1% in FY20 to 12.2% in FY23E.

## Valuation & Outlook

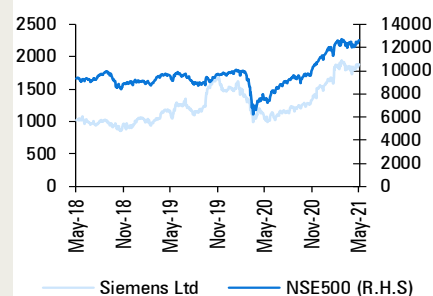
Overall, Siemens is expected to further strengthen its leadership position through further penetration of **automation and digitisation products & services across segments**, particularly in digital industries, smart infrastructure, mobility segments, driving long term growth. We revise our target price to ₹ 2295/share (earlier ₹ 2210) and maintain **BUY** rating, implying multiple of 50x on FY23E EPS for core business and valuing C&S business at 1.7x on FY23E sales.

SIEMENS

### Particulars

Particular	Amount
Market Capitalization	₹ 69443 Crore
Total Debt (FY20)	₹ 0 Crore
Cash and Inv (FY20)	₹ 5710 Crore
EV (FY20)	₹ 63734 Crore
52 week H/L (₹)	2055 / 990
Equity capital	₹ 71.2 Crore
Face value (₹)	10.0

### Price Performance



### Key risks to our call

- Any slowdown in smart infrastructure capex across transportation (rail, metro, ports, airports) smart grids, urban infrastructure, T&D, renewables, water infrastructure could adversely affect the digital and automation business
- Any slowdown in R&D spending could slow down transition efforts towards industrial automation and digitisation

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### Key Financial Summary

(₹ Crore)*	FY19	FY20	FY21E	FY22E	FY23E	CAGR FY21-23E
Revenue (₹ crore)	13,083.9	9,946.5	12,309.1	14,195.3	16,150.9	14.5%
EBITDA (₹ crore)	1,526.1	1,003.6	1,452.6	1,690.8	1,968.6	16.4%
EBITDA margin (%)	11.7	10.1	11.8	11.9	12.2	
Net Profit (₹ crore)	1,135.6	769.5	1,085.8	1,327.3	1,563.1	20.0%
EPS (₹)	31.9	21.6	30.5	37.3	43.9	
P/E (x)	61.2	90.2	64.0	52.3	44.4	
Price / Book (x)	7.7	7.3	6.8	6.2	5.6	
EV/EBITDA (x)	42.2	63.5	43.5	37.0	31.3	
RoCE (%)	19.1	11.2	14.2	15.9	17.0	
RoE (%)	12.5	8.1	10.6	11.8	12.7	

Source: Company, ICICI Direct Research, \*September year end

Exhibit 1: Variance analysis

Year	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Income from Operation	3483.7	2837.9	22.8	2925.2	19.1	Overall revenue growth driven by smart infrastructure, digital industria, gas & power segment
Other Income	56.3	82.0	(31.3)	58.1	(3.1)	
Cost of materials consumed	1685.4	1276.20	32.1	1550.40	8.7	
Power & Fuel	0.0	0.0	-	0.0	-	
Changes in inventories of finished goods & WIP	(86.1)	(121.3)	(29.0)	(132.2)	(34.9)	
Employee cost	381.0	432.4	(11.9)	398.2	(4.3)	
Other expenses	263.4	394.0	(33.1)	166.8	57.9	Reduced other expenses owing to operational efficiencies
EBITDA	457.8	237.5	92.8	367.6	24.5	
EBITDA Margin (%)	13.1	8.4	477 bps	12.6	57 bps	
Depreciation	65.6	71.3	(8.0)	61.9	6.0	
Interest	5.8	11.2	(48.2)	3.5		
PBT	442.7	237.0	86.8	360.3	22.9	
Taxes	120.8	61.3	97.1	92.6	30.5	
PAT	321.9	175.7	83.2	267.7	20.2	
	0.273	0.259		0.257		
Segment Revenue	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	
Gas & Power/ Energy	1191.3	1026.7	16.0	1016.9	17.2	
% Contribution	34%	35%		34%		
Smart Infrastructure	1150.1	774.5	48.5	882.1	30.4	
% Contribution	32%	27%		29%		
Mobility	258.9	255.6	1.3	210.5	23.0	
% Contribution	7%	9%		7%		
Digital Industries	791.7	526.7	50.3	769.9	2.8	
% Contribution	22%	18%		26%		
Portfolio of Companies	130.5	291.0	(55.2)	93.6	39.4	
% Contribution	4%	10%		3%		

Source: Company, ICICI Direct Research, September Year End.

Exhibit 2: Change in estimates

	FY19	FY20	FY21E			FY22E			FY23E		
(₹ Crore)	Actual	Actual	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	13,084	9,947	12,090	12,309	1.8	13,935	14,195	1.9	15,851	16,151	1.9
EBITDA	1,526	1,004	1,323	1,453	9.8	1,646	1,691	2.8	1,938	1,969	1.6
EBITDA Margin (%)	11.7	10.1	10.9	11.8	90 bps	11.8	11.9	11 bps	12.2	12.2	-1 bps
PAT	1,136	769	1,026	1,086	5.8	1,315	1,327	1.0	1,535	1,563	1.8
EPS (₹)	31.9	21.6	28.8	30.5	5.9	36.9	37.3	1.0	43.1	43.9	1.8

Source: Company, ICICI Direct Research

Valuation Summary

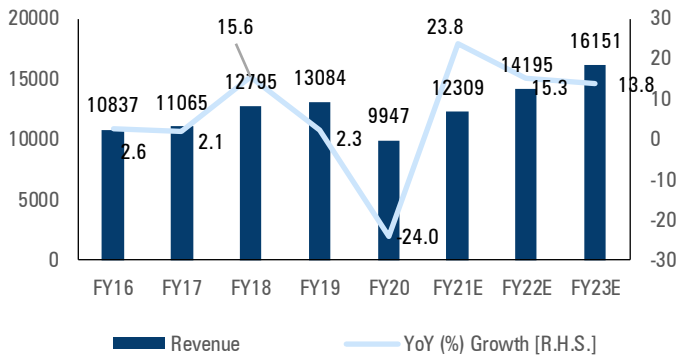
Exhibit 3: One year forward rolling P/E Band

Particulars	Multiple	FY23E Valuation (₹ crore)	Value per share
Siemens	P/E (x)	50.0	78156
C&S Acquisition	P/Sales (X)	1.7	3580
<b>Total</b>	-	<b>81736</b>	<b>2295</b>

Source: Company, ICICI Direct Research

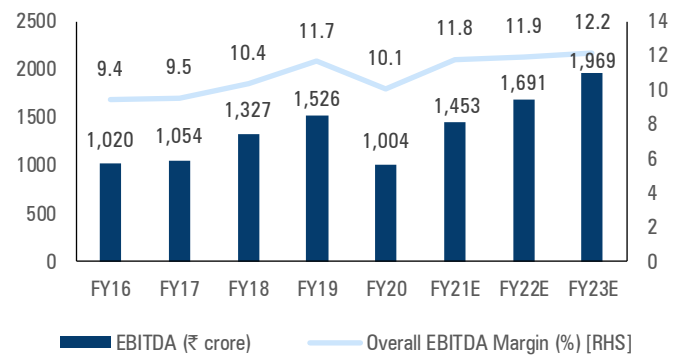
Financial story in charts:

Exhibit 4: Revenue trend...



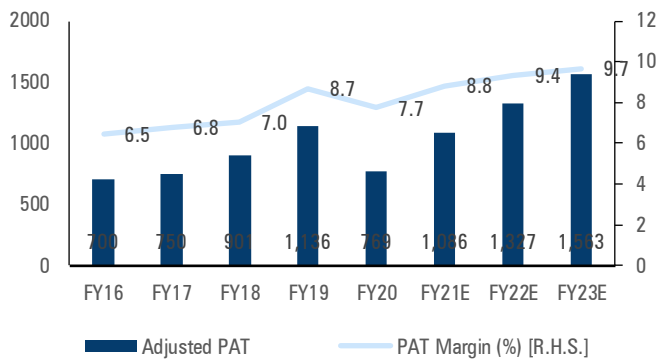
Source: ICICI Direct Research, Company

Exhibit 5: EBITDA and EBITDA margin trend



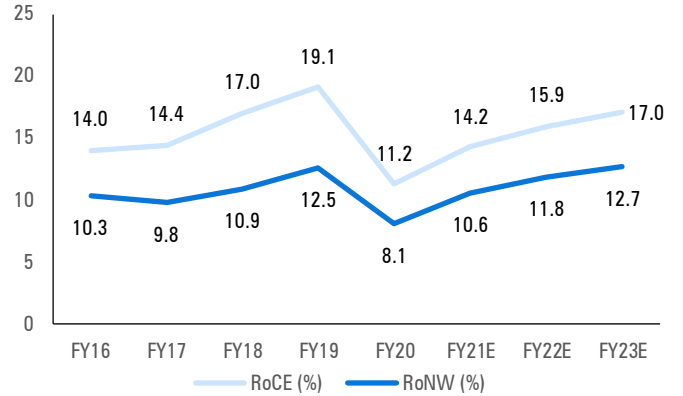
Source: ICICI Direct Research, Company

Exhibit 6: PAT and PAT margin (%) trend...



Source: Company, ICICI Direct Research

Exhibit 7: RoE, RoCE (%) trend...



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Net Sales	9,946.5	12,309.1	14,195.3	16,150.9
Other Operating Inco	-	-	-	-
<b>Total Operating In</b>	<b>9,946.5</b>	<b>12,309.1</b>	<b>14,195.3</b>	<b>16,150.9</b>
% Growth	(24.0)	23.8	15.3	13.8
Other Income	314.9	258.5	354.9	403.8
Total Revenue	10,261.4	12,567.6	14,550.2	16,554.7
Cost of materials con	1,776.2	2,584.9	3,406.9	3,924.7
Purchase of stock-in-h	2,163.7	2,584.9	2,271.3	2,584.1
Other Expenses	1,034.0	1,280.1	1,433.7	1,615.1
Total expenditure	8,942.9	10,856.5	12,504.5	14,182.3
<b>EBITDA</b>	<b>1,003.6</b>	<b>1,452.6</b>	<b>1,690.8</b>	<b>1,968.6</b>
% Growth	(34.2)	44.7	16.4	16.4
Interest	29.5	12.3	14.2	16.2
Depreciation	252.1	247.7	257.7	267.3
PBT	1,036.9	1,451.0	1,773.8	2,088.9
Tax	267.4	365.2	446.5	525.8
<b>PAT</b>	<b>769.5</b>	<b>1,085.8</b>	<b>1,327.3</b>	<b>1,563.1</b>
% Growth	(32.2)	41.1	22.2	17.8
EPS	21.6	30.5	37.3	43.9

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Profit after Tax	768.6	1,085.8	1,327.3	1,563.1
Depreciation	252.1	247.7	257.7	267.3
Interest	29.5	12.3	14.2	16.2
Other income	(314.9)	(258.5)	(354.9)	(403.8)
Prov for Taxation	267.4	365.2	446.5	525.8
Cash Flow before WC changes	1,002.7	1,452.6	1,690.8	1,968.6
Change in Working Capital	421.0	(374.8)	(273.0)	(166.1)
Taxes Paid	(267.4)	(365.2)	(446.5)	(525.8)
<b>Cashflow from Operating A</b>	<b>1,156.3</b>	<b>712.6</b>	<b>971.3</b>	<b>1,276.7</b>
(Purchase)/Sale of Fixed Assets	(258.8)	(108.5)	(311.5)	(318.0)
(Purchase)/Sale of Investments	-	-	(10.0)	(15.0)
Other Income	-	-	-	-
<b>Cashflow from Investing A</b>	<b>(258.8)</b>	<b>(108.5)</b>	<b>(321.5)</b>	<b>(333.0)</b>
Issue/(Repayment of Debt)	-	-	-	-
Changes in Minority Interest	-	-	-	-
Changes in Networth	(326.9)	(300.1)	(385.9)	(428.8)
Interest	(29.5)	(12.3)	(14.2)	(16.2)
Others	(436.6)	-	-	-
<b>Cashflow from Financing A</b>	<b>(793.0)</b>	<b>(312.4)</b>	<b>(400.1)</b>	<b>(444.9)</b>
Changes in Cash	707.7	550.1	604.6	902.6
Opening Cash/Cash Equivalent	5,001.9	5,709.6	6,259.7	6,864.3
Closing Cash/ Cash Equivalent	5,709.6	6,259.7	6,864.3	7,766.8

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Share Capital	71.2	71.2	71.2	71.2
Reserves & Surplus	9,420.8	10,206.5	11,147.9	12,282.3
<b>Networth</b>	<b>9,492.0</b>	<b>10,277.7</b>	<b>11,219.1</b>	<b>12,353.5</b>
Total Debt	-	-	-	-
Deferred tax liability (	-	-	-	-
<b>Total Liabilities</b>	<b>10,001.4</b>	<b>10,794.5</b>	<b>11,813.2</b>	<b>13,118.5</b>
Gross Block	1,855.5	2,030.5	2,280.5	2,570.5
Acc: Depreciation	877.1	1,109.8	1,359.5	1,618.8
Net Block	1,167.1	1,109.4	1,109.7	1,140.4
Capital WIP	88.0	6.5	60.0	80.0
Investments	-	-	-	-
Inventory	1,115.2	1,399.5	1,555.7	1,548.7
Sundry debtors	3,140.2	3,569.6	4,045.7	4,360.7
Cash and bank balanc	5,709.6	6,259.7	6,864.3	7,766.8
Loans and advances	272.2	344.7	468.4	533.0
Other Current Assets	873.7	283.1	425.9	646.0
Total current Assets	12,716.0	13,456.8	14,992.4	16,680.3
CL& Prov.	3,660.6	3,976.1	4,373.7	4,723.2
Net Current Assets	6,857.2	7,782.0	8,659.7	9,728.4
<b>Total Assets</b>	<b>10,001.3</b>	<b>10,794.5</b>	<b>11,813.1</b>	<b>13,118.5</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
EPS	21.6	30.5	37.3	43.9
Cash EPS	28.7	37.4	44.5	51.4
BV	266.5	288.6	315.0	346.9
DPS	7.0	7.0	9.0	10.0
Cash Per Share	24.6	31.2	38.2	45.5
<b>EBITDA Margin</b>	<b>10.1</b>	<b>11.8</b>	<b>11.9</b>	<b>12.2</b>
PBT / Net Sales	7.6	9.8	10.1	10.5
PAT Margin	7.7	8.8	9.4	9.7
Inventory days	40.9	41.5	40.0	35.0
Debtor days	115.2	105.9	104.0	98.6
Creditor days	102.3	92.0	90.0	87.0
RoE	8.1	10.6	11.8	12.7
<b>RoCE</b>	<b>11.2</b>	<b>14.2</b>	<b>15.9</b>	<b>17.0</b>
RoIC	27.6	47.4	46.9	50.9
<b>P/E</b>	<b>90.2</b>	<b>64.0</b>	<b>52.3</b>	<b>44.4</b>
EV / EBITDA	63.5	43.5	37.0	31.3
EV / Net Sales	6.4	5.1	4.4	3.8
Market Cap / Sales	7.0	5.6	4.9	4.3
Price to Book Value	7.3	6.8	6.2	5.6
Debt/EBITDA	0.0	0.0	0.0	0.0
<b>Net Debt / Equity</b>	<b>-0.6</b>	<b>-0.6</b>	<b>-0.6</b>	<b>-0.6</b>
Current Ratio	1.5	1.4	1.5	1.5
Quick Ratio	1.2	1.1	1.1	1.2

Source: Company, ICICI Direct Research

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Sell: <-15%



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