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Q2FY21 result review
and earnings revision

Capital Goods

Target price: Rs1,860

Earnings revision

(%)	FY21E	FY22E
Sales	↑ 4.2	↑ 6.3
EBITDA	↑ 22.9	↑ 16.9
PAT	↑ 16.3	↑ 10.9

Target price revision

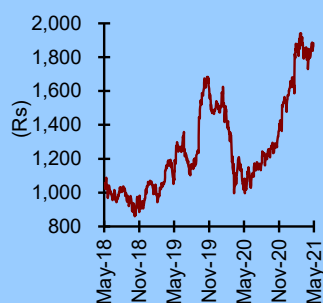
Rs1,860 from Rs1,768

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	75.0	75.0	75.0
Institutional investors	14.5	14.8	14.9
MFs and other	1.9	1.7	1.6
FI/ Banks	0.0	0.0	0.0
Insurance Co.	8.5	8.9	8.9
FIs	4.1	4.2	4.4
Others	10.5	10.2	10.1

Source: NSE

Price chart



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INDIA

ICICI Securities

Siemens Ltd

Healthy margins with growth recovery

HOLD

Maintain

Rs1,949

Siemens' Q2FY21 earnings were supported by strong recovery in execution (up 28% YoY) and strong operating margins (13.2% EBITDA margin) in Jan-Mar quarter (Q2FY21). Despite macro headwinds, order intake grew 17% YoY to Rs33bn during the quarter and the orderbook remained strong at Rs127bn, lending growth visibility. Going ahead, the impact of second covid wave on operations is uncertain; however, we expect increased activity in certain segments like pharma, data centres, food & beverages, etc. Private sector is increasingly investing in automation and efficiency-related solutions. Factoring in better-than-expected performance, we raise earnings estimates by 16.3% and 11% for FY21E and FY22E, respectively. However, given the recent run-up in valuation and the uncertainty due to the second wave, we maintain **HOLD** with a revised SoTP-based target price of Rs1,860 (earlier: Rs1,768).

- **Healthy execution and order intake:** Revenues witnessed strong recovery, especially in digital industries (short-cycle orders) and 'smart' infrastructure segments. The order intake grew 16.9% YoY at Rs33bn and the orderbook stood strong at Rs127bn (+17% YoY), lending growth visibility. Booking of a large order under mobility and healthy orders under digital industries.
- **Strong operational margins despite higher material costs:** EBITDA margin at 13.2% (up 480bps YoY) was supported by control over fixed overheads as other expense declined 32% YoY. This was despite 650bps YoY increase in material cost proportion to 68.6%. We believe this should be partly due to revenue mix and partly due to increase in commodity prices. We believe 32% YoY drop in other expense to Rs2.4bn is aided by forex gains.
- **Maintain HOLD due to rich valuation & impact of second covid wave:** Management is confident that economy is gradually moving back to normalcy driven by government thrust towards infrastructure as indicated in FY22 Budget. Green shoots in certain sectors like pharma, food & beverages, data centres, etc. will support base orders. However, we believe, the recent run-up in stock price has made valuations expensive; hence, we maintain **HOLD**. We value the stock using SoTP methodology assigning multiples to FY22E core PAT for each individual segment, post this, we add back the cash. We have also accounted for C&S and mechanical drives businesses separately. We arrive at an SoTP-based target price of Rs1,860 (previously: Rs1,768).

Market Cap	Rs694bn/US\$9.4bn
Reuters/Bloomberg	SIEM.BO/SIEM IN
Shares Outstanding (mn)	356.1
52-week Range (Rs)	1949/997
Free Float (%)	25.0
FII (%)	4.4
Daily Volume (US\$/'000)	12,250
Absolute Return 3m (%)	5.6
Absolute Return 12m (%)	90.0
Sensex Return 3m (%)	(4.5)
Sensex Return 12m (%)	57.5

Year to Sept	FY20	FY21E	FY22E	FY23E
Revenue (Rs mn)	98,694	1,23,953	1,47,867	1,70,954
Adj. NI (Rs mn)	7,574	11,292	13,512	15,428
DEPS (Rs)	21.3	31.7	37.9	43.3
% Chg YoY	(32.6)	49.1	19.7	14.2
P/E (x)	91.6	61.5	51.4	45.0
CEPS (Rs)	28.3	39.1	45.9	51.9
EV/E (x)	64.5	42.0	34.9	30.2
Dividend Yield	0.4	0.5	0.5	0.5
RoCE (%)	8.4	11.6	12.7	13.2
RoE (%)	8.2	11.5	12.6	13.0

Please refer to important disclosures at the end of this report

Valuation and outlook

Private sector is increasingly investing more in automation and efficiency-related solutions. The impetus given to infrastructure spending by the government in Budget FY22 will snowball into strong growth opportunities in terms of demand. However, we believe, the recent run up in stock price has made valuations expensive, hence, we maintain **HOLD**. The impact of second covid wave is also expected to put brakes on the overall growth momentum.

We use SoTP valuation methodology wherein we assign P/E multiples to FY22E core PAT of various business segments and add back the cash and Rs4.4bn consideration for sale and transfer of mechanical drives business to Flander Drives (subsidiary of parent Siemens).

We value 1) energy segment at 40x (good growth prospects from high-margin steam services segment and captive/cogen-related domestic orders) FY22E core earnings; 2) 'smart' infrastructure at 60x (increased from 50x given improved domestic market environment – stable growth visibility from domestic market and market leadership with healthy RoEs); 3) mobility at 40x (increased from 35x earlier given better growth prospects for enhanced metro-related ordering); 4) digital industries at 70x (15% premium to domestic segment of Honeywell due to Siemens' leadership in high-growth discrete and factory automation); 5) portfolio of companies at 20x (increased from 15x earlier); 6) others at 20x; and 7) C&S electric business at 20x. We add back cash of Rs50.5bn. We maintain our **HOLD** rating on the stock and arrive at an SoTP-based target price of Rs1,860 per share.

Table 1: Valuation summary

Segment	FY22E Core PAT	Multiple (x)	Value (Rs bn)	Value per Share
Energy	4,439	40	177.6	499
Smart Infrastructure	3,310	60	198.6	558
Mobility	817	40	32.7	92
Digital Industries	2,414	70	169.0	475
Portfolio of Companies	282	20	5.6	16
Others	145	20	2.9	8
C&S Electric Limited	1,050	20	21.0	59
Cash			50.5	142
Total			662.2	1,860

Source: I-Sec research

Table 2: Earnings revision

Rs mn	FY21E			FY22E		
	Earlier	Revised	YoY (%)	Earlier	Revised	YoY (%)
Revenue	1,18,997	1,23,953	4.2	1,39,099	1,47,867	6.3
EBIDTA	12,580	15,466	22.9	15,766	18,437	16.9
PAT	9,709	11,292	16.3	12,182	13,512	10.9

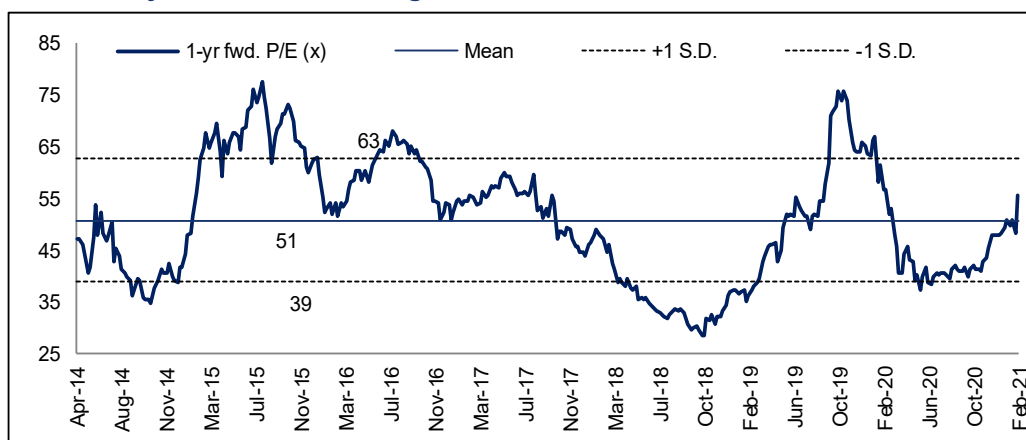
Source: Company data, I-Sec research

Table 3: C&S electric financials for month of Mar'21

Smart Infrastructure	Consolidated	Standalone	Subsidiaries
Revenues	10,455	11,501	1,046
EBIT	952	988	36
EBIT Margin	9.1	8.6	3.4

Source: I-Sec research

Chart 1: 1-year forward earnings



Source: Company data, I-Sec research

Table 4: Revenue breakup by segment, geography and customer

(Rs mn)	FY18	FY19	FY20
Product	69,292	69,694	48,862
% of total revenues	56.4	55.1	51.0
Project	41,338	42,093	29,988
% of total revenues	33.6	33.3	31.3
Services	12,297	14,700	16,958
% of total revenues	10.0	11.6	17.7
Total income from operations	1,22,927	1,26,487	95,808
Export	25,077	23,400	21,461
% of total revenues	20.4	18.5	22.4
Domestic	97,850	1,03,087	74,347
% of total revenues	79.6	81.5	77.6
Total income from operations	1,22,927	1,26,487	95,808
Government	36,632	35,922	24,431
% of total revenues	29.8	28.4	25.5
Private	86,295	90,565	71,377
% of total revenues	70.2	71.6	74.5
Total income from operations	1,22,927	1,26,487	95,808

Source: Company data, I-Sec research

Table 5: Quarterly financial highlights

(Rs mn)	Q2FY20	Q2FY21	YoY(%)	Q1FY21	QoQ(%)	Isec Est	Var(%)	FY19	FY20	YoY(%)
Net Sales	26,224	33,543	27.9	29,011	15.6	29,073	15.4	51,430	62,554	21.6
EBITDA	2,178	4,414	102.7	3,611	22.2	3,339	32.2	5,383	8,025	49.1
Margin	8.3	13.2	485bps	12.4	71bps	11.5	167bps	10.5	12.8	236bps
Depreciation	653	581	(11.0)	616	(5.7)	637	(8.8)	1,209	1,197	(1.0)
Finance Cost	109	47	(56.9)	35	34.3	122	(61.5)	186	82	(55.9)
Other Income	805	540	(32.9)	570	(5.3)	887	(39.1)	1,659	1,110	(33.1)
Extraordinary income	-	-	-	-	-	-	-	-	-	-
PBT	2,221	4,326	94.8	3,530	22.5	3,467	24.8	5,647	7,856	39.1
Tax	574	1,168	103.5	908	28.6	867	34.8	1,451	2,076	43.1
tax rate	25.8	27.0	116bps	25.7	128bps	25.0	200bps	25.7	26.4	73bps
Reported PAT	1,647	3,158	91.7	2,622	20.4	2,600	21.5	4,196	5,780	37.8
Adjusted PAT	1,647	3,158	91.7	2,622	20.4	2,600	21.5	4,196	5,780	37.8
Margin(%)	6.3	9.4	313bps	9.0	38bps	8.9	8.2	8.2	9.2	108bps
EPS	4.6	8.9	91.7	7.4	20.4	7.3	31.5	31.5	21.3	(32.6)
Order intake	26,610	33,090	24.4	32,060	3.2	34,261	(3.4)	56,772	65,150	14.8
Order book	1,25,470	1,27,970	2.0	1,27,970	-	1,33,159	(3.9)	1,25,470	1,27,970	2.0

Source: Company data, I-Sec research

Table 6: Quarterly segmental trend

(Rs mn)	Q2FY20	Q2FY21	YoY(%)	Q1FY21	QoQ(%)	Isec Est	Var(%)	FY19	FY20	YoY(%)
Revenue										
Gas and Power	10,267	11,913	16.0	10,169	17.2	11,499	3.6	19,153	22,082	15.3
Smart Infrastructure	7,745	10,455	35.0	8,821	18.5	8,520	22.7	15,335	19,276	25.7
Mobility	2,378	2,341	(1.6)	1,864	25.6	2,616	(10.5)	4,463	4,205	(5.8)
Digital Industries	5,267	7,917	50.3	7,699	2.8	5,794	36.6	11,268	15,616	38.6
Portfolio of Companies	933	1,305	39.9	936	39.4	983	32.8	1,937	2,241	15.7
Others	243	293	20.6	184	59.2	255	14.8	400	477	19.3
Total Segmental	26,833	34,224	27.5	29,673	15.3	29,666	15.4	52,556	63,897	21.6
Less : Inter segment revenue	609	681	11.8	662	2.9	593	14.8	1,126	1,343	19.3
Total Income from operations	26,224	33,543	27.9	29,011	15.6	29,073	15.4	51,430	62,554	21.6
EBIT Margin										
Gas and Power	887	1,804	103.4	1,277	41.3	1,207	49.4	1,861	3,081	65.6
Smart Infrastructure	26	952	3,561.5	663	43.6	682	39.7	770	1,615	109.7
Mobility	271	237	(12.5)	168	41.1	235	0.7	507	405	(20.1)
Digital Industries	263	686	160.8	802	(14.5)	492	39.3	893	1,488	66.6
Portfolio of Companies	71	125	76.1	50	150.0	34	263.4	98	175	78.6
Others	7	29	314.3	35	(17.1)	51	(43.2)	45	64	42.2
Total Segmental EBIT	1,525	3,833	151.3	2,995	28.0	2,702	41.8	4,174	6,828	63.6
EBIT Margin										
Gas and Power	8.6	15.1	650bps	12.6	260bps	10.5	460bps	9.7	14.0	420bps
Smart Infrastructure	0.3	9.1	880bps	7.5	160bps	8.0	110bps	5.0	8.4	340bps
Mobility	11.4	10.1	-130bps	9.0	110bps	9.0	110bps	11.4	9.6	-170bps
Digital Industries	5.0	8.7	370bps	10.4	-180bps	8.5	20bps	7.9	9.5	160bps
Portfolio of Companies	7.6	9.6	200bps	5.3	420bps	3.5	610bps	5.1	7.8	270bps
Others	2.9	9.9	700bps	19.0	-910bps	20.0	-1010bps	11.3	13.4	220bps

Source: Company data, I-Sec research

Table 7: Segment-wise revenue estimates

September ending (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Gas and Power	51,736	40,529	47,824	54,998	63,248
YoY Growth (%)	7.2	-21.7	18.0	15.0	15.0
Smart Infrastructure	37,387	27,635	35,926	44,907	51,643
YoY Growth (%)	-1.5	-26.1	30.0	25.0	15.0
Mobility	11,203	8,443	9,709	11,166	12,506
YoY Growth (%)	14.2	-24.6	15.0	15.0	12.0
Digital Industries	26,874	19,415	27,181	33,487	40,184
YoY Growth (%)	13.4	-27.8	40.0	23.2	20.0
Portfolio of Companies	4,595	3,843	4,996	5,495	6,045
YoY Growth (%)	-50.8	-16.4	30.0	10.0	10.0
Others	1,191	966	976	985	995
YoY Growth (%)	-10.9	-18.9	1.0	1.0	1.0
Total Segmental	1,32,986	1,00,831	1,26,612	1,51,038	1,74,621
YoY Growth (%)	2.0	-24.2	25.6	19.3	15.6
Less : Inter segment revenue	2,981	2,137	2,659	3,172	3,667
as % of total Segmental	2.2	2.1	2.1	2.1	2.1
Total Income from operations	1,30,005	98,694	1,23,953	1,47,867	1,70,954
YoY Growth (%)	2.2	-24.1	25.6	19.3	15.6

Source: Company data, I-Sec research

Financial summary

Table 8: Profit & loss statement

(Rs mn, year ending Sep 30)

	FY20	FY21E	FY22E	FY23E
Total Income	98,694	1,23,953	1,47,867	1,70,954
Operating Expenses	88,791	1,08,487	1,29,430	1,49,872
EBITDA	9,903	15,466	18,437	21,082
% margins	10.0	12.5	12.5	12.3
Depreciation & Amortisation	2,504	2,629	2,849	3,069
EBIT	7,399	12,837	15,588	18,013
Gross Interest	292	220	250	250
Other Income	3,099	2,479	2,727	2,863
PBT before exceptionals	10,206	15,096	18,065	20,626
Add:				
Extraordinaries/Exceptionals	-	-	-	-
Add: Share in associates	-	-	-	-
PBT	10,206	15,096	18,065	20,626
Less: Taxes	2,632	3,804	4,552	5,198
Less: Minority Interests	-	-	-	-
Net Income (Reported)	7,574	11,292	13,512	15,428
Adjusted Net Income	7,574	11,292	13,512	15,428

Source: Company data, I-Sec research

Table 9: Balance sheet

(Rs mn, year ending Sep 30)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	1,19,206	1,19,187	1,38,636	1,59,921
of which cash & cash eqv.	55,517	45,155	50,321	57,817
Total Current Liabilities & Provisions	59,929	68,060	79,525	90,595
Net Current Assets	3,760	5,972	8,789	11,509
Investments	550	20,550	20,550	20,550
Other Non-Current Assets	20,305	18,944	21,761	24,481
Net Fixed Assets	10,670	11,850	11,001	9,932
Goodwill	3,938	-	-	-
Total Assets	94,740	1,02,471	1,12,422	1,24,289
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	-	-	-	-
Minority Interest	-	-	-	-
Equity Share Capital	712	712	712	712
Face Value per share (Rs)	2.00	2.00	2.00	2.00
Reserves & Surplus	94,028	1,01,759	1,11,710	1,23,577
Net Worth	94,740	1,02,471	1,12,422	1,24,289
Total Liabilities	94,740	1,02,471	1,12,422	1,24,289

Source: Company data, I-Sec research

Table 10: Cashflow statement

(Rs mn, year ending Sep 30)

	FY20	FY21E	FY22E	FY23E
Operating Cashflow	7,200	11,662	13,884	15,884
Working Capital Changes	7,788	(2,211)	(2,817)	(2,720)
Capital Commitments	(688)	(3,809)	(2,000)	(2,000)
Free Cashflow	14,300	5,641	9,067	11,164
Cashflow from Investing Activities	4,377	(16,159)	(90)	144
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Interest paid	(292)	(220)	(250)	(250)
Dividend paid	(2,493)	(3,561)	(3,561)	(3,561)
Extraordinary Items/Others	(9,288)	3,937	-	(0)
Chg. in Cash & Bank balance	6,604	(10,362)	5,166	7,496

Source: Company data, I-Sec research

Table 11: Key ratios

(Year ending Sep 30)

	FY20	FY21E	FY22E	FY23E
Per Share Data (in Rs.)				
Diluted adjusted EPS	21.3	31.7	37.9	43.3
Recurring Cash EPS	28.3	39.1	45.9	51.9
Dividend per share (DPS)	7.0	10.0	10.0	10.0
Book Value per share (BV)	266.0	287.7	315.7	349.0
Growth Ratios (%)				
Operating Income	(24.1)	25.6	19.3	15.6
EBITDA	(34.5)	56.2	19.2	14.3
Recurring Net Income	(32.6)	49.1	19.7	14.2
Diluted adjusted EPS	(32.6)	49.1	19.7	14.2
Diluted Recurring CEPS	(23.7)	38.1	17.5	13.1
Valuation Ratios				
P/E	91.6	61.5	51.4	45.0
P/CEPS	68.9	49.9	42.4	37.5
P/BV	7.3	6.8	6.2	5.6
EV / EBITDA	64.5	42.0	34.9	30.2
EV / Operating Income	6.7	5.2	4.4	3.7
EV / Operating FCF (pre -Capex)	94.4	68.7	58.2	48.3
Operating Ratios				
Raw Material/Sales (%)	64.0	66.0	64.0	64.0
SG&A/Sales (%)	10.3	8.6	12.2	13.4
Other Income / PBT (%)	30.4	16.4	15.1	13.9
Effective Tax Rate (%)	25.8	25.2	25.2	25.2
NWC / Total Assets (%)	5.7	6.5	7.2	7.7
Inventory Turnover (days)	40.9	38.0	38.0	38.0
Receivables (days)	115.5	115.0	115.0	115.0
Payables (days)	114.0	114.3	114.2	114.1
Net D/E Ratio (x)	(0.6)	(0.4)	(0.4)	(0.5)
Return/Profitability Ratios (%)				
Recurring Net Income Margins	7.7	9.1	9.1	9.0
RoCE	8.4	11.6	12.7	13.2
RoNW	8.2	11.5	12.6	13.0
Dividend Payout Ratio	0.3	0.3	0.3	0.2
Dividend Yield (%)	0.4	0.5	0.5	0.5
EBITDA Margins	10.0	12.5	12.5	12.3

Source: Company data, I-Sec research

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BUY: >15 return; ADD: 5 to 15 return; HOLD: Negative 5 to Positive 5 return; REDUCE: Negative 5 to Negative 15 return; SELL: < negative 15 return

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