

Siemens

BUY

Beats expectations by a long chalk!

Summary

- After an endless spell of strong order inflows, the Rs28bn order inflow may not to entice many. Note the prospect is intact. Thereby, lumpiness in a quarter or two cannot be ruled out.
- With HVDC orders, the revenues booked were stronger in Energy and Building Technologies segment. This helped SIEM report Rs26bn/Rs2.2bn/Rs1.6bn in Revenue/EBITDA/net profit respectively-ahead of our estimates.
- With 34% gross margin, SIEM has ticked the operating leverage boxes. Adding to that, with scalable business model, we think SIEM can clip a similar growth.
- With macroeconomic narratives translating in orders-- and with short-cycle book-bill ratio of ~1.2x, a robust CAGR in earnings remains on cards. Maintain BUY.

Key Highlights and Investment Rationale

- Thanks to HVDC, the energy segment is firing:** With unusually strong March quarter, where order intake surpassed Rs47bn (+96% YoY), we wrote, the situations portends a brighter outlook. Come Q3FY17, the revenues in energy management division advanced by 54%. With fixed cost absorbed, operating profit nearly doubled to Rs798mn. With June-quarter order inflow of Rs28bn, we estimate SIEM order backlog at ~Rs126bn (1.2x FY17 Book Bill).
- Seeing signs of private capex revival:** Power and Gas will benefit from thermal plant replacement orders. Though Energy management is driving the show, with aggressive bidding, we fear pricing in the future. Digital factories will take time. We are hopeful that cement capex will drive the process industries. And finally, with residential and commercial infrastructure plans on cards, building technologies offers a stronger reason for hope.
- Valuation and view:** Including healthcare in base year, we forecast 6.4% (as against 8.7%) CAGR in revenues until FY18 (Sep-Ending). We note competitive intensity and new accounting standards could make smoother earnings volatile. Yet with the base-case pricing power, we forecast net profit to grow 21% CAGR over the next two fiscals. Though we cut our near term estimates, we raise our TP to Rs1,676 (Rs1,620). We maintain **BUY**.

TP	Rs1,676
CMP	Rs1,452
Potential upside / downside	+15%
Previous Rating	BUY

V/s Consensus

EPS (Rs)	FY18E	FY19E
IDBI Capital	13.3	29.3
Consensus	23.3	29.7
% difference	(42.9)	(1.5)

Shareholding Pattern (%)

Promoters	75.0
FII	5.0
DII	9.4
Public	10.6

Price Performance (%)

	-1m	-3m	-12m
Absolute	8.4	10.2	9.5
Rel to Sensex	5.1	3.4	(4.4)

Key Stock Data

Bloomberg/Reuters	SIEM IN / SIEM.BO
Sector	Capital Goods
Shares o/s (mn)	356
Market cap. (Rs mn)	517,033
Market cap. (US\$ mn)	8,037
3-m daily average value (Rs mn)	1,353
52-week high / low	Rs1,470 / 1,011
Nifty / Sensex	10,077 / 32,515

Relative to Sensex (%)



Financial snapshot

Year	FY2014	FY2015	FY2016	FY2017E	FY2018E
Revenue	106,783	105,124	108,089	101,976	122,370
EBITDA	5,882	9,737	9,643	9,632	12,210
EBITDA (%)	5.5	9.3	8.9	9.4	10.0
Adj. PAT	2,678	6,036	5,933	6,721	8,693
EPS (Rs)	26.6	125.4	(1.7)	13.3	29.3
EPS Growth (%)	193.0	85.6	87.1	76.9	59.4
PE (x)	0.4	0.7	1.9	0.7	0.7
Dividend Yield (%)	85.9	50.9	49.9	49.8	39.3
EV/EBITDA (x)	6.4	12.7	10.1	10.0	12.3
RoE (%)	8.5	16.0	12.6	12.1	15.0
RoCE (%)	106,783	105,124	108,089	101,976	122,370

Source: Company; IDBI Capital Research

We anticipated fluctuation in divisional and product mix. Further, we feared and adverse fluctuations in currency and commodity. Strangely, that was not the case. Yet we do not deny such situation in future. Finally, we think the growth in Energy segment is here to stay. And so is the case of operating margins.

Table 1: Financial snapshot

(Rs mn)

Year-end: Sept.	Q3FY17	Q3FY16	YoY Chg (%)	Q2FY17	QoQ Chg (%)
Net Sales	26,508	21,279	24.6	29,288	(9.5)
EBIDTA	2,255	1,881	19.8	2,786	(19.1)
Other income	731	276	164.7	529	38.2
PBIDT	2,985	2,158	38.4	3,314	(9.9)
Depreciation	(480)	(506)	(5.1)	(502)	(4.3)
Interest	(14)	(15)	(5.5)	(21)	(33.5)
PBT (Including Extra)	2,492	1,637	52.2	2,792	(10.8)
Tax	(863)	(557)	54.9	(1,001)	(13.8)
Reported PAT	1,629	1,081	50.7	1,791	(9.1)
No. of shares (mn)	356	356		356	
<i>EBIDTA margin (%)</i>	8.5	8.8		9.5	
<i>PBIDT margin (%)</i>	11.3	10.1		11.3	
EPS - annualized (Rs)	18.3	12.1	50.7	20.1	(9.1)

Source: Company; IDBI Capital Research

Table 2: Actual vs. estimates

Year to March	Q3FY17	Q3FY17E	Variance (%)
Revenue	26,508	24,011	10.40
EBITDA	2,255	2,331	(3.28)
<i>EBITDA (%)</i>	8.51	9.71	(120.28)
Net Profit	1,629	1,551	5.01
<i>Net Profit (%)</i>	6.14	6.46	(31.55)

Source: Company; IDBI Capital Research

Table 3: Segmental result highlights

Year-end: Sept.	Q3FY17	Q3FY16	YoY Chg (%)	Q2FY17	QoQ Chg (%)
Segment Revenue					
Power and Gas	3,035	3,272	(7.2)	4,012	(24.3)
Energy Management	12,145	7,905	53.6	12,320	(1.4)
Building Technologies	1,119	892	25.4	1,154	(3.1)
Mobility	2,710	2,470	9.7	3,678	(26.3)
Digital Factory	4,723	4,462	5.9	5,235	(9.8)
Process Industries and Drives	5,491	5,084	8.0	5,796	(5.3)
Others	361	218	66.0	327	10.5
Total Before Adjustments	29,584	24,303	21.7	32,523	(9.0)
EBIT					
Power and Gas	161	243	(33.4)	563	(71.3)
Energy Management	798	405	97.0	911	(12.4)
Building Technologies	66	60	9.7	23	187.8
Mobility	245	131	87.6	133	84.7
Digital Factory	336	174	93.4	312	7.5
Process Industries and Drives	84	296	(71.7)	267	(68.6)
Others	84	67	25.1	75	11.6
Total Before Adjustments	1,775	1,376	29.0	2,284	(22.3)

Source: Company; IDBI Capital Research

Table 3: Segmental result highlights (Continue...)

Year-end: Sept.	Q3FY17	Q3FY16	YoY Chg (%)	Q2FY17	QoQ Chg (%)
Revenue Share (%)					
Power and Gas	10.3	13.5		12.3	
Energy Management	41.1	32.5		37.9	
Building Technologies	3.8	3.7		3.5	
Mobility	9.2	10.2		11.3	
Digital Factory	16.0	18.4		16.1	
Process Industries and Drives	18.6	20.9		17.8	
Others	1.2	0.9		1.0	
EBIT Margins (%)					
Power and Gas	5.3	7.4		14.0	
Energy Management	6.6	5.1		7.4	
Building Technologies	5.9	6.8		2.0	
Mobility	9.1	5.3		3.6	
Digital Factory	7.1	3.9		6.0	
Process Industries and Drives	1.5	5.8		4.6	
Others	23.2	30.7		22.9	

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: September	FY15	FY16	FY17E	FY18E
Net sales	105,124	108,089	101,976	122,370
<i>Growth (%)</i>	(1.6)	2.8	(5.7)	20.0
Operating expenses	(95,387)	(98,446)	(92,344)	(110,160)
EBITDA	9,737	9,643	9,632	12,210
<i>Growth (%)</i>	65.5	(1.0)	(0.1)	26.8
Depreciation	(2,156)	(2,264)	(1,498)	(1,608)
EBIT	7,581	7,379	8,134	10,602
Interest paid	(49)	(59)	59	56
Other income	1,604	1,639	1,159	1,352
Pre-tax profit	18,995	45,956	9,352	12,010
Tax	(5,131)	(10,091)	(2,632)	(3,317)
<i>Effective tax rate (%)</i>	27.0	22.0	28.1	27.6
Reported net profit	13,864	35,865	6,721	8,693
Adjusted net profit	6,036	5,933	6,721	8,693
<i>Growth (%)</i>	125.4	(1.7)	13.3	29.3
<i>Shares o/s (mn nos)</i>	356	356	356	356

Cash Flow Statement

(Rs mn)

Year-end: September	FY15	FY16	FY17E	FY18E
Pre-tax profit	18,995	45,956	9,352	12,010
Adj Depreciation	809	435	1,498	1,608
Tax paid	(4,568)	(10,169)	(2,632)	(3,317)
Chg in working capital	10,662	(2,562)	(137)	(3,287)
Other operating activities	(20,130)	(28,578)	-	-
Cash flow from operations (a)	5,768	5,082	8,081	7,014
Capital expenditure	(9,371)	9,346	(2,200)	(2,200)
Chg in investments	(10,624)	292	-	-
Other investing activities	26,450	(7,242)	-	-
Cash flow from investing (b)	6,455	2,396	(2,200)	(2,200)
Dividend (incl. tax)	(4,273)	(11,752)	(4,273)	(4,273)
Other financing activities	1,801	(4,369)	-	-
Cash flow from financing (c)	(2,472)	(16,121)	(4,273)	(4,273)
Net chg in cash (a+b+c)	9,751	(8,643)	1,608	541

Balance Sheet

(Rs mn)

Year-end: September	FY15	FY16	FY17E	FY18E
Net fixed assets	22,527	12,746	13,448	14,040
Investments	10,706	10,414	10,414	10,414
Other non-curr assets	638	8,567	8,567	8,567
Current assets	68,349	83,151	81,680	95,714
Inventories	9,509	9,993	9,226	13,493
Sundry Debtors	30,183	30,159	28,256	34,599
Cash and Bank	20,959	35,094	36,702	37,243
Loans and advances	7,698	7,905	7,496	10,380
Total assets	102,220	114,878	114,109	128,736
Shareholders' funds	51,266	65,819	68,266	72,686
Share capital	712	712	712	712
Reserves & surplus	50,554	65,107	67,554	71,974
CurrLiab & prov	50,954	49,059	45,843	56,050
Current liabilities	36,334	33,050	30,850	38,058
Provisions	14,620	16,009	14,993	17,991
Total liabilities	50,954	49,059	45,843	56,050
Total equity & liabilities	102,220	114,878	114,109	128,736
Book Value (Rs)	144	185	192	204

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: September	FY15	FY16	FY17E	FY18E
Adj. EPS (Rs)	17.0	16.7	18.9	24.4
Adj. EPS growth (%)	125.4	(1.7)	13.3	29.3
EBITDA margin (%)	9.3	8.9	9.4	10.0
Pre-tax margin (%)	18.1	42.5	9.2	9.8
ROE (%)	12.7	10.1	10.0	12.3
ROCE (%)	16.0	12.6	12.1	15.0
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.0	1.0	0.9	1.0
Leverage factor (x)	2.1	1.9	1.7	1.7
Net margin (%)	5.7	5.5	6.6	7.1
Net Debt/Equity (x)	(0.4)	(0.5)	(0.5)	(0.5)
Working Capital & Liquidity ratio				
Inventory days	33	34	33	40
Receivable days	105	102	101	103
Payable days	139	123	122	126

Valuation

Year-end: September	FY15	FY16	FY17E	FY18E
PER (x)	85.6	87.1	76.9	59.4
Price / Book value (x)	10.1	7.9	7.6	7.1
PCE (x)	63.1	63.0	62.9	50.2
EV / Net sales (x)	4.7	4.5	4.7	3.9
EV / EBITDA (x)	50.9	49.9	49.8	39.3
Dividend Yield (%)	0.7	1.9	0.7	0.7



Notes

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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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