

India

HOLD (no change)

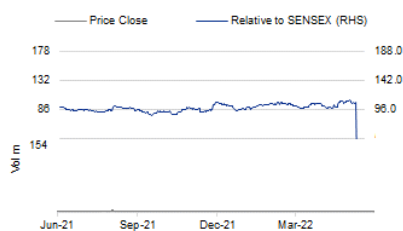
Consensus ratings*: Buy 17 Hold 7 Sell 4

Current price:	Rs2,372
Target price:	Rs2,500
Previous target:	Rs2,315
Up/downside:	5.4%
InCred Research / Consensus:	-2.0%
Reuters:	SIEM.NS
Bloomberg:	SIEM IN
Market cap:	US\$10,850m Rs844,575m
Average daily turnover:	US\$11.5m Rs896.4m
Current shares o/s:	356.1m
Free float:	25.0%

*Source: Bloomberg

Key changes in this note

- FY22F-24F revenue raised by 1%-5%.
- FY22F-23F EBITDA reduced by 0.3%-5%.
- FY22F PAT reduced by 4% and FY24F PAT raised by 2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.2	0.5	13.0
Relative (%)	1.3	2.8	9.2

Major shareholders	% held
Promoter	75.0
Life Insurance Corporation	5.5

Analyst(s)



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Siemens Ltd

Order growth momentum continues

- Order growth momentum across end-markets is strong. Improved growth outlook for the mobility segment with new product portfolio is positive surprise.
- Digital portfolio adoption has accelerated, while its margins have also inched up due to better pricing, cost control and localization.
- Retain Hold rating on Siemens with a higher TP of Rs2,500 (Rs2,315 earlier).

Capex uptick momentum to continue in near term

Siemens sees strong market momentum in most major verticals and is optimistic on capex for at least next six months. High inflation and interest rate risk persist but currently there is no impact on end-markets. 1HFY22 order inflow or OI (+63% yoy) was led by 5x rise in the mobility segment orders (led by large Hinjewadi metro rail and Vande Bharat train set orders) and a 78% rise in digital industries (DI) orders. Cost control measures, better price extraction, and lower discretionary cost aided margins. Despite the rise in projects' share (36% in 1HFY22 vs. 29% in 1HFY21), Siemens does not expect a dilution in margins.

Scaling up business in mobility segment

Portfolio changes and new products in the mobility segment, in our view, would aid substantial growth in the next two-to-three years. The segment's order growth drivers include locomotives, propulsion control system for train sets, electrification and signaling equipment for metro rail and mainline trains. Also, the company is seeing a lot of greenfield capex opportunities in segments like housing, data centres, infra-logistics, warehousing, semi-conductor, e-mobility, and infrastructure apart from government-led capex on railway projects, T&D projects, metro rail projects, airport projects and port projects.

Strengthening product portfolio with scalable digital offerings

Digital adoption momentum has accelerated across segments like metals, cement, pharma, food and beverage or F&B, infrastructure and emerging sectors like intra-logistics, metro rail, etc. Higher DI margins were aided by the company's ability to pass on price hike to clients, the growth in software solutions, stringent cost control, productivity measures and localization. Siemens expects C&S Electric's margins to stabilize as integration cost wanes while synergies and the rise in export business will further aid margins.

Retain Hold rating with higher target price of Rs2,500

Order win momentum for the mobility segment has surprised positively while the uptick in capex and digital penetration should aid smart infra/DI growth. Medium-term growth concerns for the energy segment persist but its share in EBIT is declining (54% in FY20 to 37% in FY23F). We factor in the sale of large drive business and increased OI and thus tweak our FY22-24F earnings by -4% to +2% and roll forward to 45x Jun 2024F EPS. We retain Hold rating on Siemens with a higher target price of Rs2,500 (Rs2,315 earlier) due to higher valuation post factoring in a strong PAT CAGR of 25% over FY21-24F. Slowdown in order momentum is downside risk while better-than-estimated margins is an upside risk.

Financial Summary	Sep-20A	Sep-21A	Sep-22F	Sep-23F	Sep-24F
Revenue (Rsm)	96,606	134,226	163,306	194,541	220,433
Operating EBITDA (Rsm)	10,268	15,173	19,638	24,378	28,142
Net Profit (Rsm)	7,927	10,489	17,314	17,379	20,482
Core EPS (Rs)	22.3	29.5	38.7	48.8	57.5
Core EPS Growth	(30.2%)	32.3%	31.5%	26.0%	17.9%
FD Core P/E (x)	106.51	80.49	48.76	48.58	41.22
DPS (Rs)	7.0	7.0	10.0	12.0	14.0
Dividend Yield	0.30%	0.30%	0.42%	0.51%	0.59%
EV/EBITDA (x)	76.66	52.25	40.14	31.84	27.09
P/FCFE (x)	70.55	(74.28)	106.30	54.80	44.08
Net Gearing	(60.2%)	(49.8%)	(47.7%)	(52.2%)	(56.2%)
P/BV (x)	8.89	8.16	7.20	6.48	5.79
ROE	8.6%	10.6%	12.5%	14.0%	14.8%
% Change In Core EPS Estimates			(4.21%)	0.04%	1.87%
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Order growth momentum continues

2QFY22 results overview

Conference-call highlights ►

- **Demand:** Market momentum has continued with most major verticals showing real growth since last six months and visibility on order inflow for next six months. Siemens is highly optimistic on capex for next six months. Strong growth is seen in short cycle and high-volume project business. Inflation and high interest rates at some point could hurt, but currently there is no impact on end-markets. The company's interest remains in digitalization.
- **Margins:** Cost control measures, better price extraction, and lower discretionary cost aided margins. There was a forex gain of 20bp. Despite the rise in project business, the company does not expect a dilution in margins.
- **Order inflow:** 1HFY22 was solid due to robust growth in base business as well as emergence of large orders.
- **Greenfield capex:** Siemens is seeing a lot of greenfield capex opportunities in segments like housing (both private and government), data centres, infra-logistics, warehousing, semi-conductor, e-mobility, and infrastructure. Most of the customers are in advanced stage of discussions. The company expects the government to incur a) significant capex on railways, b) pick-up in TBCB orders as tenders have been floated (the matter has been dragging since last few quarters) and expects order finalization by Sep 2022F or get delayed by another one-to-two quarters, and c) orders from metro rail projects (for electrification) along with project opportunities in airports and ports.
- **Competitive intensity:** Even though demand has been robust across segments, the overall competitive intensity remains very high along with the market being highly price sensitive.
- **Energy segment:**
 - **Order inflow and segment growth drivers:** Energy segment orders grew 28%, aided by growth in waste heat recovery, modernization of power plants in both private and government projects, and STATCOM (due to increased usage of renewables). Biomass and waste heat recovery business is seeing growth in sugar, cement, and steel sectors with the focus on decarbonisation solutions. Key orders in 1HFY22 include AIS sub-station order, and STATCOM order from a private steel plant (strong potential). In power generation, there are opportunities for the company in decarbonizing and increasing energy efficiency of existing industrial co-generation plants in industries like chemicals, fertilizers, etc.
 - Revenue was impacted by delay in offtake.
 - **Laggards:** Siemens doesn't see new capacity addition in power generation as a huge growth area going ahead, with no new conventional generation capacity coming up. Also, it does not expect any substantial orders for greenfield captive power plants.
- **Smart infrastructure (SI):**
 - **Order inflow and segment growth drivers:** SI orders grew 37% yoy in 1HFY22. Siemens witnessed strong growth in data centre, transportation, medium voltage, and low voltage product orders from cement and steel sectors.
 - **1HFY22 financials:** There was production disruption due to supply chain problems which hit revenue and impacted margins (apart from forex impact of 50bp).
 - Distribution revamp plan has not witnessed a substantial improvement but private discoms have started revamping and this would continue going ahead. Siemens is not going to be a developer in distribution and transmission projects and will only concentrate in products and solutions.

- **Smart metering:** There has been no substantial growth in smart metering, although there is potential for an uptick in growth in this area.
- **Digital industries or DI:**
 - **Order inflow and segment growth drivers:** DI order inflow grew 78%, with growth across segments like metals, cement, pharma, F&B and infrastructure and emerging sectors like intra-logistics, metro rail, and aerospace tunnel automation.
 - **Improvement in DI margins:** Factors contributing to higher margins include the company's ability to pass on price hike to customers due to inflationary pressure and otherwise, increasing software solutions, stringent cost control, productivity measures and localization to some extent. Service content will pick up and aid margins.
 - **Continued interest in new digital solutions:** Cyber security (to secure gas power plant), warehouse digitalization (simulation & automation for higher productivity), Digital Twin for automotive production (brings in efficiency of 15% in paint shop) were some of the solutions that were provided.
 - **1H financials:** Margins were aided by short-cycle orders and price increase. Inventories were high due to advance procurement.
- **Mobility segment:**
 - **Order inflow:** Mobility segment's order inflow grew 391% aided by a large order from Hinjewadi metro rail project and train set orders for Vande Bharat trains. These would be growth drivers in coming years. Hinjewadi metro rail project and train set would be a major growth area (train set with self-propulsion system and electrics). Train set and metro rail projects led to order inflow growth.
 - **Locomotives:** Market for locomotives is picking up as 6,000-9,000-12,000 HP locomotive tenders are coming out, where the company was not present earlier but would look in for future opportunities.
 - **Train sets:** Siemens is sensing a huge opportunity in self propulsion system for train sets (technology readily available at group level) under Vande Bharat. The company has got its first order and expects a substantial opportunity going ahead.
 - **Electrification and signalling:** Siemens sees opportunities in mainline and metro rail electrification and signalization going ahead. Kavach system in signalization would be a major growth opportunity.
 - **Metro rail:** Metro rail market is a huge opportunity, with expansion of existing metro networks in tier-1 cities and potential for new metro rail networks in tier-II and tier-III cities. Portfolio changes and new products in the segment would aid substantial growth in next two-to-three years, in our view.
- **Opportunities in sustainability as a business unit catering to different segments include:**
 - **Utility:** In utility STATCOM, grid control, smart grid, and smart meter solutions are huge opportunities going ahead to improve energy efficiency and energy savings for discoms.
 - **Generation:** On the generation side, the company is helping to improve the utilization of energy required to adjust the load factor in coal power plants. The company has opportunities in solutions to enhance energy savings for commercial buildings.
 - **Industrial:** In industrial segment, the company has opportunities in providing energy-saving solutions for data centres, logistics and warehousing sectors, and for green steel.
 - **Smart Infra:** In this segment, the company has opportunity in providing charging infrastructure.
 - **Water:** The company is also into waste water management and water distribution solutions.
 - **Energy monitoring:** Providing energy monitoring through centralized command centres can be a big opportunity for the company.

- **Some of the sustainable solutions** include eco-design transformer, grid controller, demand flow solution (50% power savings in buildings), SIMATIC energy solutions, and hotel load converter (reduces maintenance cost for trains).
- **Valuation of large drive business:** Large drive business accounted for a mere 3.4% of sales and 2% of EBIT in FY21, and its valuation cannot be compared with the company's valuation.
- **Future public-private partnership or PPP opportunities:** Siemens India has not infused any equity capital in Pune-Hinjewadi projects as there can be conflict of interest if the equity partner and EPC developer for these projects are the same. Siemens would be active in metro rail and mobility. It could look for PPP opportunities in future on case-by-case basis, considering the regulatory environment and financial arrangement of a project.
- **C&S Electric:** Most integration activities have been completed and the one-time impact has been accounted for. Siemens expects margins to stabilize as integration cost wanes while synergies and increase in export business start aiding margins.
- **Focus areas:** Supply chain problems to continue for more quarters. The focus is on supply chain and cost control to mitigate inflationary pressure. The focus on double-digit profitability and cashflow to also continue.
- **Exports:** Major export products include transformers, switchgear, sub-station, and turbines in the energy segment and digital grid solution in the SI segment. Some of these factories are feeder units for the export network.
- **Margin in projects segment:** Despite an increase in the share of the projects business, Siemens does not expect a dilution in margins. The company has tightened project execution processes over the last few years, and they were robust in managing risk, funding, and working capital requirement.

Results highlights ►

- In 2QFY22, Siemens reported standalone revenue of Rs36.3bn (+8% yoy), 7% below our estimate of Rs39bn (10% below consensus estimate).
- Sales disappointed in the energy segment (flat yoy; 11% below our estimate), while digital industries (+10.4% yoy)/mobility (+8% yoy) sales were 6.5%/17% below our estimates, respectively. Sales growth was in line with our estimate for the smart infrastructure segment (+15.3% yoy).
- EBITDA at Rs4.5bn (+1% yoy) was 2% above our estimate of Rs4.37bn (2.6% below consensus estimate).
- EBITDA margin at 12.3% (-88bp yoy, +203bp qoq) was above our/ consensus estimates of 11.2%/ 11.3%, respectively, aided by a 40bp improvement in gross margin and a 5% qoq decline in employee expenses. However, Siemens has a history of volatile quarterly margin performance.
- EBIT margins were above our estimates in energy and digital businesses, but EBIT margins were below our estimates in smart infrastructure and mobility segments. EBIT margins stood at 13.6%/11.4%/7.5%/9.3% for energy/digital industries/smart infrastructure/mobility segments, respectively, vs. our estimates of 12.0%/8.5%/8%/10%.
- Other income at Rs638m (+18% yoy) was 7% above our estimate.
- Tax rate stood at 26.1% vs. our estimate of 26.5%.
- Core PAT at Rs3.3bn (+4% yoy, +34% qoq), was 3% above our estimate and in line with consensus estimate aided by higher-than-expected EBITDA margin and other income.
- Siemens' 2QFY22 consolidated sales stood at Rs39.5bn (+14% yoy on a low base for C&S), EBITDA margin at 12.3% (-88bp yoy, +199bp qoq) and PAT at Rs3.4bn (+6% yoy).

Order inflow and order backlog ►

- 2QFY22 order inflow stood at Rs53.4bn (+61% yoy, flat qoq) vs. historical run-rate of Rs33-35bn with all businesses recording strong growth, and the mobility segment booking some high-value orders.
- 1HFY22 order inflow stood at Rs106.3bn (+63.3%). Order backlog was at Rs171.7bn (+35.5% yoy).

Balance sheet and cash flow ►

- Net working capital (ex-cash) on days of sales has been stable at 63 days in 1HFY22 vs. 62 days in 1HFY21 as the increase in inventory days was offset by lower creditor days.
- Net cash from operations stood at a negative Rs89m in 1HFY22 vs. Rs7.3bn in 1HFY21 due to an increase in absolute inventories and debtors to support higher sales.
- Net cash stood at Rs47.6bn in 1HFY22 vs. Rs44.3bn in 1HFY21.

Figure 1: Quarterly financials

Rs m	2QFY22	2QFY21	YoY (%)	1QFY22	QoQ (%)	1HFY22	1HFY21	YoY (%)	2QFY22E	variation
Total Revenue	36,285	33,543	8.2	32,399	12.0	68,684	62,554	9.8	39,035	-7%
Raw material cost	(24,740)	(23,007)	7.5	(22,220)	11.3	(46,960)	(42,809)	9.7	(26,661)	
Employee expenses	(4,094)	(3,681)	11.2	(4,311)	(5.0)	(8,405)	(7,649)	9.9	(4,417)	
Other expenses	(2,997)	(2,441)	22.8	(2,549)	17.6	(5,546)	(4,071)	36.2	(3,585)	
EBITDA	4,454	4,414	0.9	3,319	34.2	7,773	8,025	(3.1)	4,372	2%
Other income	638	540	18.1	571	11.7	1,209	1,110	8.9	595	7%
EBIT	4,557	4,373	4.2	3,352	35.9	7,909	7,938	(0.4)	4,405	3%
Interest income/(expenses)	(109)	(47)	131.9	(54)	101.9	(163)	(82)	98.8	(49)	
Depreciation	(535)	(581)	(7.9)	(538)	(0.6)	(1,073)	(1,197)	(10.4)	(562)	-5%
PBT	4,448	4,326	2.8	3,298	34.9	7,746	7,856	(1.4)	4,356	2%
Tax	(1,159)	(1,168)	(0.8)	(845)	37.2	(2,004)	(2,076)	(3.5)	(1,154)	
Reported PAT	3,289	3,158	4.1	2,453	34.1	5,742	5,780	(0.7)	3,201	3%
Extraordinary items	-	-	-	-	-	-	-	-	-	
Adjusted PAT	3,289	3,158	4.1	2,453	34.1	5,742	5,780	(0.7)	3,201	3%
Key ratios (%)										
Raw material / Sales	68.2	68.6	-41 bp	68.6	-40 bp	68.4	68.4	-6 bp	68.3	
Employee expenses / Sales	11.3	11.0	31 bp	13.3	-202 bp	12.2	12.2	1 bp	11.3	
Other expenses / Sales	8.3	7.3	98 bp	7.9	39 bp	8.1	6.5	157 bp	9.2	
EBITDA margin (%)	12.3	13.2	-88 bp	10.2	203 bp	11.3	12.8	-151 bp	11.2	
PBT margin	12.5	13.1	-65 bp	10.3	215 bp	11.5	12.8	-131 bp	0.0	
Tax rate	26.1	27.0	-94 bp	25.6	44 bp	25.9	26.4	-55 bp	26.5	
PAT margin	9.2	9.6	-36 bp	7.7	154 bp	8.5	9.4	-90 bp	8.3	
Core EPS (Rs)	9.2	8.9		6.9		16.1	16.2		9.0	
Order details (Rs m)										
Booking	53,390	33,090	61.3	53,000	0.7	1,06,390	65,150	63.3	37,000	44%
Backlog	1,71,740	1,26,770	35.5	1,55,750	10.3	1,71,740	1,26,770	35.5		

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Segmental financials

Revenues (Rs m)	2QFY22	2QFY21	YoY (%)	1QFY22	QoQ (%)	1HFY22	1HFY21	YoY (%)
Energy	11,958	11,913	0.4	10,892	9.8	22,850	22,082	3.5
Smart Infrastructure	12,055	10,455	15.3	9,967	20.9	22,022	19,276	14.2
Digital Industries	8,739	7,917	10.4	7,910	10.5	16,649	15,616	6.6
Portfolio Companies	1,536	1,305	17.7	1,301	18.1	2,837	2,241	26.6
Mobility	2,529	2,341	8.0	2,805	(9.8)	5,334	4,205	26.8
Others	292	293	(0.3)	162	80.2	454	477	(4.8)
Total segment revenue	37,109	34,224	8.4	33,037	12.3	70,146	63,897	9.8
less: Inter-segment revenue	824	681	21.0	638	29.2	1,462	1,343	8.9
Net Sales	36,285	33,543	8.2	32,399	12.0	68,684	62,554	9.8

EBIT (Rs m)	2QFY22	2QFY21	YoY (%)	1QFY22	QoQ (%)	1HFY22	1HFY21	YoY (%)
Energy	1,623	1,804	(10.0)	1,232	31.7	2,855	3,081	(7.3)
Smart Infrastructure	902	952	(5.3)	615	46.7	1,517	1,615	(6.1)
Digital Industries	992	686	44.6	666	48.9	1,658	1,488	11.4
Portfolio Companies	142	125	13.6	30	373.3	172	175	(1.7)
Mobility	234	237	(1.3)	230	1.7	464	405	14.6
Others	26	29	(10.3)	8	225.0	34	64	(46.9)
Total	3,919	3,833	2.2	2,781	40.9	6,700	6,828	(1.9)

Segment EBIT margin (%)	2QFY22	2QFY21	YoY (%)	1QFY22	QoQ (%)	1HFY22	1HFY21	YoY (%)
Energy	13.6%	15.1%	-157 bp	11.3%	226 bp	12.5%	14.0%	-146 bp
Smart Infrastructure	7.5%	9.1%	-162 bp	6.2%	131 bp	6.9%	8.4%	-149 bp
Digital Industries	11.4%	8.7%	269 bp	8.4%	293 bp	10.0%	9.5%	43 bp
Portfolio Companies	9.2%	9.6%	-33 bp	2.3%	694 bp	6.1%	7.8%	-175 bp
Mobility	9.3%	10.1%	-87 bp	8.2%	105 bp	8.7%	9.6%	-93 bp
Others	8.9%	9.9%	-99 bp	4.9%	397 bp	7.5%	13.4%	-593 bp
Total EBIT margin	10.6%	11.2%	-64 bp	8.4%	214 bp	9.6%	10.7%	-113 bp

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Net working capital (in days)

Net working capital (on days of sales)	1HFY18	FY18	1HFY19	FY19	1HFY20	FY20	1HFY21	FY21	1HFY22
Current Assets									
Inventory Days	39	34	42	32	47	42	52	45	57
Debtor Days	108	111	107	112	109	122	131	101	108
Loans & advances/other current assets	105	119	108	110	112	139	119	111	99
Current Liabilities									
Creditor Days	87	90	85	95	82	106	121	99	103
Other current liabilities	49	54	49	49	62	85	81	66	63
Provisions days	33	33	33	34	38	46	39	36	36
NWC days (excl cash)	84	87	90	75	86	68	62	55	63

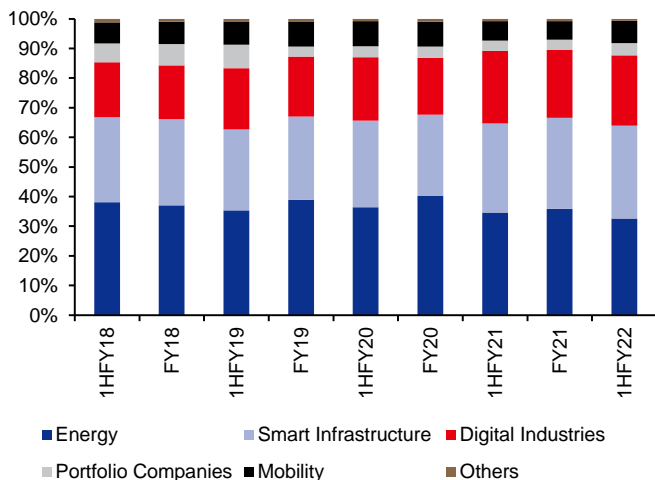
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Cashflow statement

(Rs m)	FY18	1HFY19	FY19	1HFY20	FY20	1HFY21	FY21	1HFY22
Cashflow from operating activity								
Profit before tax	13,912	7,743	16,416	5,855	10,193	8,715	15,165	7,746
Adjustments for:								
Finance cost	82	26	112	188	292	82	196	163
Bad debts	101	52	75	25	148	10	58	29
Provisions for bad debts	256	1	384	32	324	-189	-246	237
Depreciation	1,967	1,103	1,980	1,319	2,504	1,197	2,282	1,073
P/L on sale of asset	-10	4	-505	2	-2	-500	-508	-67
Liabilities written back	-136	-44	-86	-39	-135	-24	-125	-18
Other provisions	108	0	0	0	0	0	0	0
Unrealised exchange loss / (gain)	1,110	-1,700	-1,197	869	724	246	140	231
Interest income	-2,773	-1,677	-3,375	-1,625	-2,915	-1,076	-1,993	-1,013
Operating profit before working capital changes	14,617	5,508	13,804	6,626	11,133	8,461	14,969	8,381
Working capital adjustments								
(Inc)/ Dec in inventories	-1,224	-3,640	438	-4,797	-114	-4,323	-4,869	-5,182
(Inc)/ Dec in trade and other receivables	-11,021	2,786	-701	3,590	994	-2,453	-1,455	-4,349
Inc/(Dec) in trade payables and other liabilities	3,029	484	4,648	-4,689	-2,150	8,183	7,242	3,607
Inc/(Dec) in Provisions	855	372	57	355	-156	-464	901	151
Net change in working capital	-8,361	2	4,442	-5,541	-1,426	943	1,819	-5,773
Cash generated from operations	6,256	5,510	18,246	1,085	9,707	9,404	16,788	2,608
Direct taxes	-5,834	-3,536	-6,130	-1,514	-2,942	-2,087	-3,450	-2,697
Net cash from operating activities	422	1,974	12,116	-429	6,765	7,317	13,338	-89
Cash flow from investing activities								
Purchase of PPE and invt. prop	-1,903	-913	-1,002	-1,153	-172	-573	-1,097	-557
Proceeds from sale of PPE and invt. prop								
Proceeds from sale of business division								
Investment in subsidiary company								
Capital advances	115	0	861	0	74	0	0	0
Interest received	2,691	1,755	3,333	1,637	3,057	1,195	2,043	1,005
ICDs	-11,082	-5,808	-9,427	-7,022	-7,752	-1,380	-4,720	-5,020
Refund of ICDs	8,547	5,198	9,662	6,042	8,482	2,240	4,340	5,110
Deposits (with original maturity of more than 3 months)	60	-4,172	-13,751	3,407	4,600	-6,501	-9,911	5,819
Net cash from investing activities	-1,572	-3,937	-10,324	2,911	8,289	-20,185	-25,071	6,367
Cash flow from financing activities								
Interest paid	-54	-18	-107	-83	-128	-29	-98	-115
Repayment of lease liability	0	0	0	-288	-714	-316	-614	-361
Dividend paid (including Tax there on)	-3,000	-3,005	-3,005	-3,005	-3,005	-2,493	-2,493	-2,849
Net cash used in financing activities	-3,054	-3,023	-3,112	-3,376	-3,847	-2,838	-3,205	-3,325
Net inc/(dec) in Cash & CE	-4,204	-4,986	-1,320	-894	11,207	-15,706	-14,938	2,953
At beginning of the year	12,628	25,132	8,432	7,101	7,101	18,311	18,311	3,372
Exchange loss or gain	8	2	-11	-13	3	-2	-1	-14
CCE at end of the year	8,432	20,148	7,101	6,194	18,311	2,603	3,372	6,311

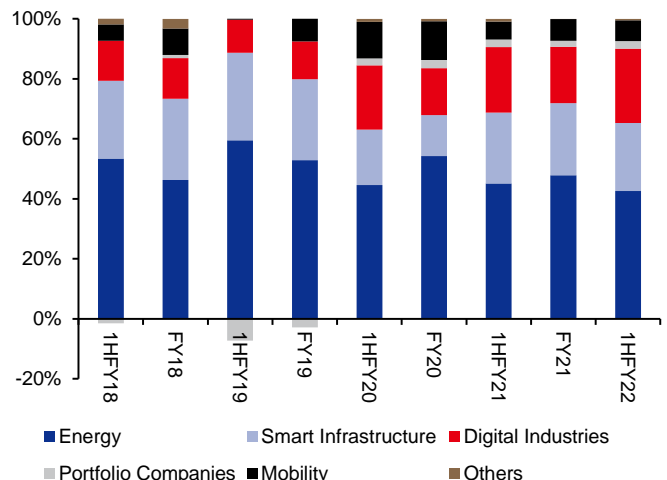
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Segment-wise revenue share



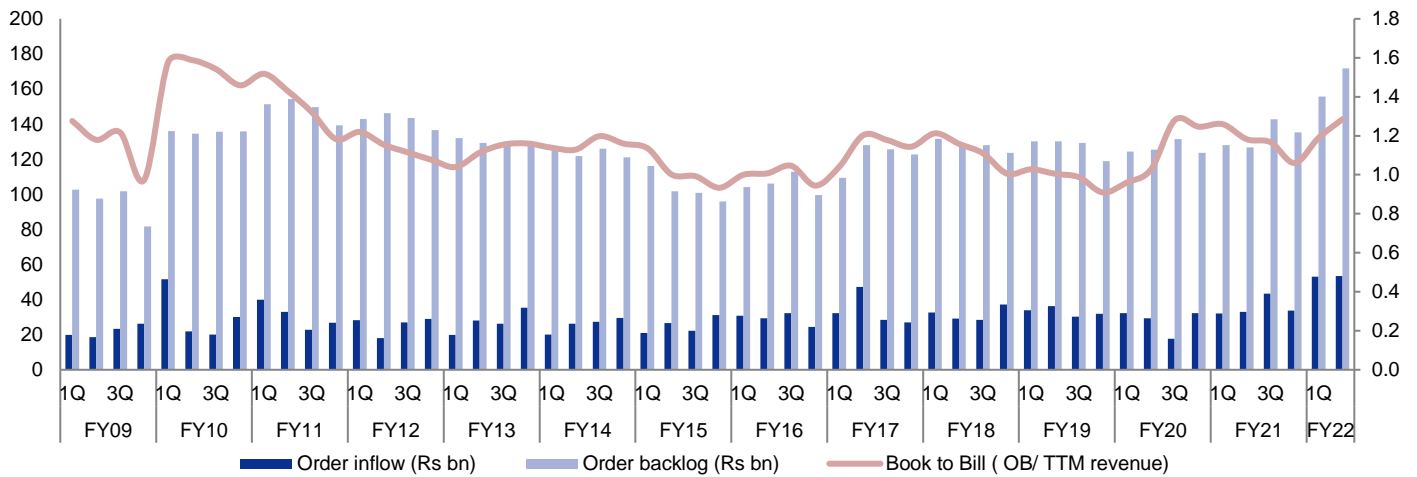
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Segment-wise EBIT share- rising trend in DI's share



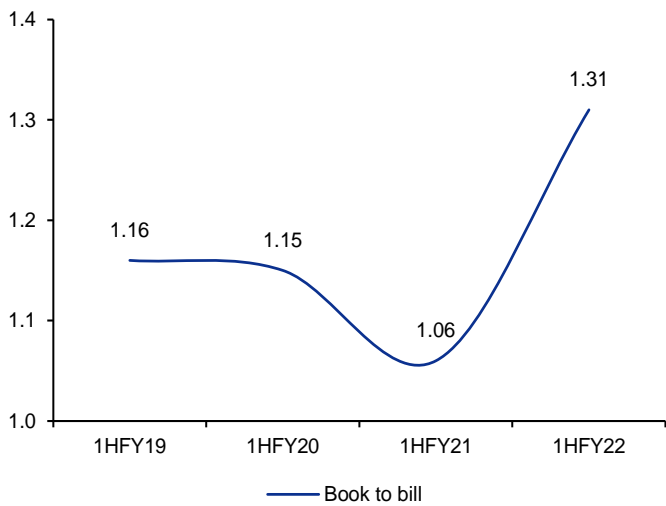
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Order backlog was Rs172bn (1.3x trailing 12-months' sales) as at end-1HFY22



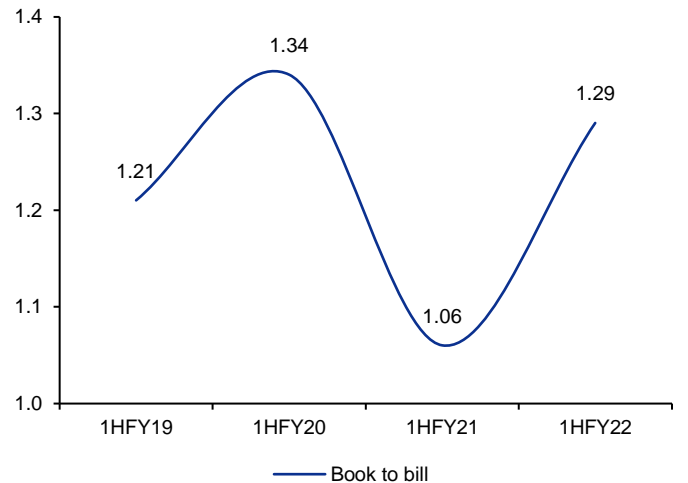
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Book-to-bill ratio increased for the energy segment aided by higher orders and lower sales due to shift in project offtake



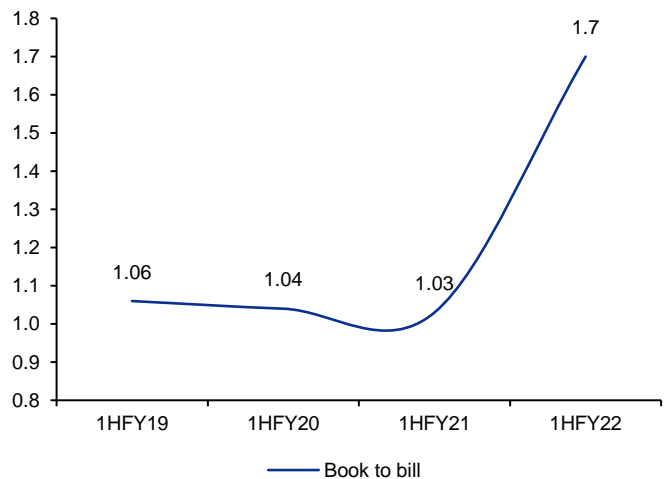
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Book-to-bill ratio increased for the smart infrastructure segment due to higher orders while production impact in Jan 2022 and supply chain delay affected sales



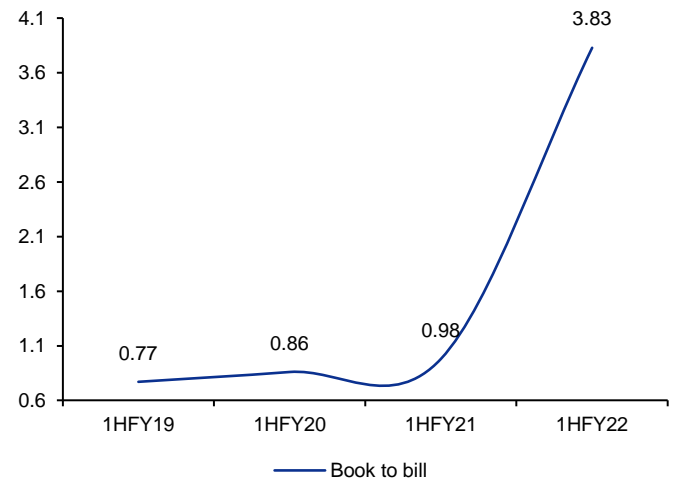
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Book-to-bill ratio increased for the digital industries segment due to strong order growth led by advance order placement by channel partners to offset higher lead time



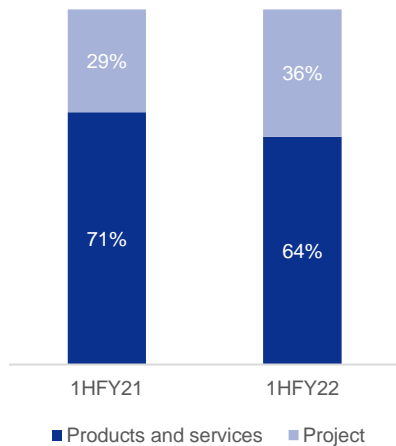
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Book-to-bill ratio increased for the mobility segment due to robust order intake of large metro rail projects (execution timeline of more than three years)



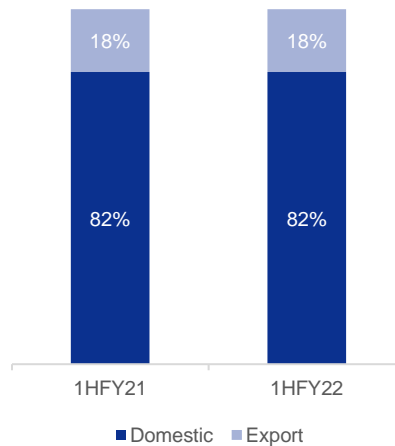
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Revenue from products, projects and services



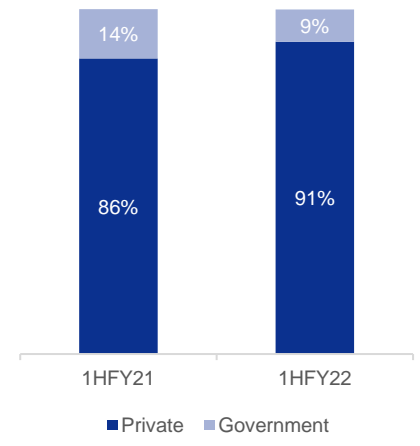
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Revenue from domestic and export segments



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 14: Revenue from private and government projects



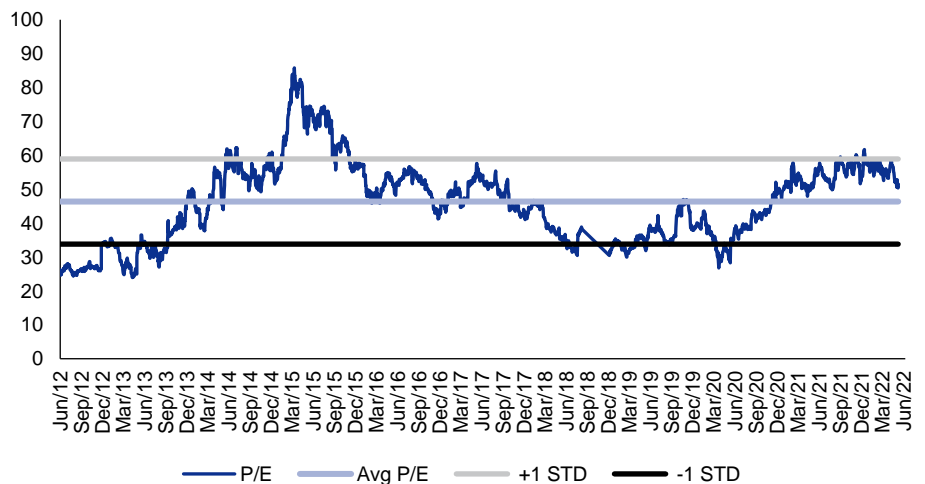
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 15: Earnings revision table

(Rs m)	Old estimates			New estimates			Change (%)		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Revenue	1,64,537	1,89,365	2,12,763	1,65,461	1,96,782	2,22,764	0.6%	3.9%	4.7%
EBITDA	20,757	24,450	27,712	19,638	24,378	28,142	-5.4%	-0.3%	1.6%
Core PAT	14,401	17,372	20,106	13,794	17,379	20,482	-4.2%	0.0%	1.9%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 16: One-year forward P/E

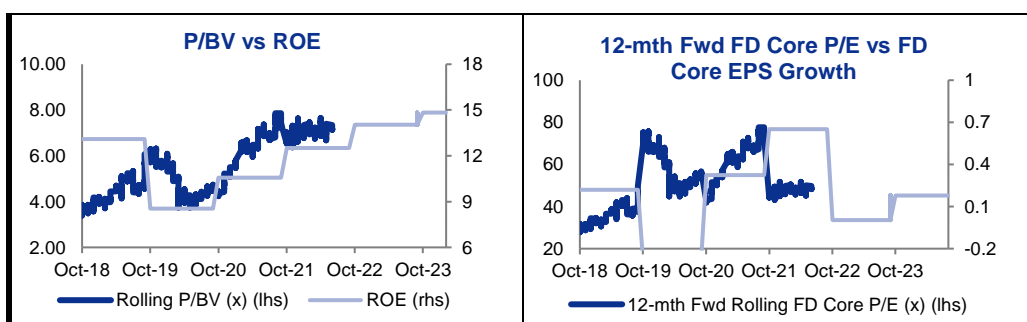


SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 17: Peer comparison

Company	Bloomberg Ticker	Recom.	Price Rs	TP Rs	Mkt cap (US\$ m)	P/E (x)			P/BV (x)			EV/EBITDA (x)			Dividend Yield (%)		
						FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
ABB India	ABB IN	Reduce	2,333	1,975	6,409	120	80	65	12.2	10.4	9.2	84	58	45	0.2	0.2	0.3
Bharat Heavy Electricals	BHEL IN	Reduce	50	38	2,261	42	-111	28	0.6	0.6	0.6	19	110	13	0.8	-	1.8
Cummins India	KKC IN	Add	1,011	1,130	3,601	36	30	26	5.8	5.3	4.8	31	26	22	1.7	1.7	1.7
Larsen & Toubro	LT IN	Add	1,586	1,900	28,722	26	21	17	2.7	2.5	2.2	16	14	12	2.3	1.3	1.3
Siemens India	SIEM IN	Hold	2,372	2,500	10,785	61	49	41	7.2	6.5	5.8	40	32	27	0.4	0.5	0.6
Thermax	TMX IN	Hold	2,015	2,165	3,067	73	49	37	6.5	5.9	5.3	49	33	25	0.4	0.5	0.6
Voltas	VOLT IN	Hold	991	1090	4253	65	48	38	6.0	5.5	5.0	48	38	31	0.5	0.7	0.8
KEC International	KECI IN	Add	381	470	1,309	26	21	13	2.8	2.6	2.2	14	11	8	1.0	1.0	1.6
Bharat Electronics	BHE IN	Add	246	240	7,702	25	22	20	5.0	4.5	4.0	19	16	15	1.8	2.1	2.3
Bharat Dynamics	BDL IN	Add	823	575	1,926	28	21	18	5.0	4.4	3.8	18	13	12	1.1	1.9	2.2
Hindustan Aeronautics	HNAL IN	Add	1,892	2,025	8,165	12	15	14	3.3	2.8	2.5	9	8	7	2.1	2.1	2.3

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(Rs mn)	Sep-20A	Sep-21A	Sep-22F	Sep-23F	Sep-24F
Total Net Revenues	99,697	136,380	165,461	196,782	222,764
Gross Profit	36,073	43,263	53,278	64,151	73,067
Operating EBITDA	10,268	15,173	19,638	24,378	28,142
Depreciation And Amortisation	(2,521)	(3,005)	(3,314)	(3,397)	(3,497)
Operating EBIT	7,747	12,168	16,324	20,981	24,645
Financial Income/(Expense)	(295)	(246)	(246)	(226)	(206)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	3,149	2,265	2,618	2,800	3,321
Profit Before Tax (pre-EI)	10,601	14,187	18,696	23,555	27,760
Exceptional Items					
Pre-tax Profit	10,601	14,187	18,696	23,555	27,760
Taxation	(2,674)	(3,698)	(4,902)	(6,176)	(7,278)
Exceptional Income - post-tax			3,520		
Profit After Tax	7,927	10,489	17,314	17,379	20,482
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	7,927	10,489	17,314	17,379	20,482
Recurring Net Profit	7,927	10,489	13,794	17,379	20,482
Fully Diluted Recurring Net Profit	7,927	10,489	13,794	17,379	20,482

Cash Flow

(Rs mn)	Sep-20A	Sep-21A	Sep-22F	Sep-23F	Sep-24F
EBITDA	10,268	15,173	19,638	24,378	28,142
Cash Flow from Invt. & Assoc.	88	(115)	(942)	(823)	(382)
Change In Working Capital	(1,095)	2,339	(7,946)	(4,096)	(3,534)
(Incr)/Decr in Total Provisions	354	(184)			
Other Non-Cash (Income)/Expense	2,521	3,005	3,314	3,397	3,497
Other Operating Cashflow	(1,935)	(2,262)	(2,372)	(2,574)	(3,115)
Net Interest (Paid)/Received					
Tax Paid	(3,004)	(3,735)	(4,902)	(6,176)	(7,278)
Cashflow From Operations	7,197	14,221	6,790	14,106	17,331
Capex	(180)	(1,177)	(1,466)	(1,500)	(1,500)
Disposals Of FAs/subsidiaries	78	3,862			
Acq. Of Subsidiaries/investments	(3,938)	(17,382)			
Other Investing Cashflow	8,811	(9,196)	2,618	2,800	3,321
Cash Flow From Investing	4,771	(23,893)	1,152	1,300	1,821
Debt Raised/(repaid)		(1,695)			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,005)	(2,493)	(3,560)	(4,272)	(4,984)
Preferred Dividends					
Other Financing Cashflow	(855)	(830)	(246)	(226)	(206)
Cash Flow From Financing	(3,860)	(5,018)	(3,806)	(4,498)	(5,190)
Total Cash Generated	8,108	(14,690)	4,136	10,908	13,962
Free Cashflow To Equity	11,968	(11,367)	7,942	15,406	19,152
Free Cashflow To Firm	11,968	(9,672)	7,942	15,406	19,152

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BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Sep-20A	Sep-21A	Sep-22F	Sep-23F	Sep-24F
Total Cash And Equivalents	57,096	51,591	56,046	68,110	82,066
Total Debtors	32,226	37,738	46,978	55,964	63,412
Inventories	11,152	17,969	20,134	23,984	27,177
Total Other Current Assets	38,725	39,407	42,594	49,657	55,651
Total Current Assets	139,199	146,705	165,752	197,716	228,305
Fixed Assets	10,954	20,666	18,818	16,921	14,924
Total Investments	3,938				
Intangible Assets		11,732	11,732	11,732	11,732
Total Other Non-Current Assets	2,524	473	473	473	473
Total Non-current Assets	17,416	32,871	31,023	29,126	27,129
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	49,683	62,899	67,112	79,948	90,589
Other Current Liabilities	12,012	13,081	15,514	18,481	20,941
Total Current Liabilities	61,695	75,980	82,626	98,430	111,530
Total Long-term Debt		25	25	25	25
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities		25	25	25	25
Total Provisions					
Total Liabilities	61,695	76,005	82,651	98,455	111,555
Shareholders Equity	94,920	103,490	117,244	130,352	145,850
Minority Interests		81	81	81	81
Total Equity	94,920	103,571	117,325	130,433	145,931

Key Ratios					
	Sep-20A	Sep-21A	Sep-22F	Sep-23F	Sep-24F
Revenue Growth	(24.1%)	38.9%	21.7%	19.1%	13.3%
Operating EBITDA Growth	(32.7%)	47.8%	29.4%	24.1%	15.4%
Operating EBITDA Margin	10.6%	11.3%	12.0%	12.5%	12.8%
Net Cash Per Share (Rs)	160.38	144.85	157.36	191.25	230.45
BVPS (Rs)	266.63	290.70	329.34	366.16	409.69
Gross Interest Cover	26.26	49.46	66.36	92.83	119.64
Effective Tax Rate	25.2%	26.1%	26.2%	26.2%	26.2%
Net Dividend Payout Ratio	31.4%	23.8%	25.8%	24.6%	24.3%
Accounts Receivables Days	130.09	93.62	93.44	95.47	97.80
Inventory Days	64.11	57.07	61.99	60.71	62.37
Accounts Payables Days	289.68	220.65	211.50	202.35	207.91
ROIC (%)	14.2%	26.7%	23.3%	26.8%	30.0%
ROCE (%)	8.4%	12.3%	14.8%	16.9%	17.8%
Return On Average Assets	5.3%	6.3%	7.4%	8.3%	8.6%

Key Drivers					
	Sep-20A	Sep-21A	Sep-22F	Sep-23F	Sep-24F
Revenues	99,465	129,631	152,330	180,494	204,105
yoy growth (%)	(24)	30	18	18	13
EBIT	7,399	12,312	15,853	19,915	23,093
EBIT margins (%)	7	9	10	11	11
Order inflow	107,518	142,343	198,974	206,155	229,807
yoy growth (%)	(19)	32	40	4	11
Order backlog	123,596	135,200	181,844	207,505	233,207
yoy growth (%)	4	9	35	14	12

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Description:	Excellent	Very Good	Good	N/A	N/A

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Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

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Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

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Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.