

India

ADD (no change)

Consensus ratings*: Buy 21 Hold 6 Sell 5

Current price:	Rs3,723
Target price: ▲	Rs4,255
Previous target:	Rs4,000
Up/downside:	14.3%
InCred Research / Consensus:	11.5%
Reuters:	
Bloomberg:	SIEM IN
Market cap:	US\$18,257m
	Rs1,325,729m
Average daily turnover:	US\$18.0m
	Rs1304.7m
Current shares o/s:	356.1m
Free float:	25.0%

*Source: Bloomberg

Key changes in this note

- Cut FY23F-25F revenue by 1% to 2%.
- Increase FY23F-25F earnings by 4-6%.

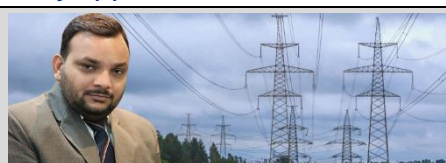


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	14.1	16.5	62.2
Relative (%)	10.3	12.8	42.8

Major shareholders	% held
Promoter	75.0
Life Insurance Corporation	3.1
	0.0

Analyst(s)



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Siemens Ltd

Revenue-led growth; order book at its peak

- Siemens' 2QFY23 EBITDA was 2%/7% above our/consensus estimates, respectively, with strong revenue growth across segments.
- We cut FY23F-25F revenue by 1%-2% on sale of low voltage business partially offset by healthy growth in other segments, raise FY23F-25F EPS by 4-6%.
- We retain our ADD rating on Siemens with a higher target price of Rs4,255 (Rs4,000 earlier).

Strong revenue-led growth in 2QFY23

Siemens posted standalone 2QFY23 revenue of Rs44bn (+29% yoy, +22% qoq), 7% above our estimate and 3% above Bloomberg (BB) consensus estimate, led by healthy growth across segments. EBITDA was at Rs5.5bn (+29% yoy), 2% above our estimate of Rs5.4bn (17% above BB consensus estimate). EBITDA margin was at 12.4% (flat yoy, -264bp qoq) vs. our estimate of 13% and BB consensus estimate of 12.1%. PAT at Rs5.2bn (+62% yoy) was 27%/47% above our/BB consensus estimates, respectively, on the back of higher sales.

Capex uptick momentum to continue

Management expects strong momentum across verticals and is optimistic on capex in the near term. The softness in commodity prices aids margin expansion along with strong revenue growth. 1HFY23 order inflow or OI (+244% yoy) was led by 9,000HP electric locomotive order worth Rs254bn. Cost control measures, better price extraction, and lower discretionary expenses aided margins. Siemens sees good traction in power grid tariff based competitive bidding (TBCB) business.

Mobility business is on the path of high growth

The segment's order growth drivers include locomotives, propulsion control system for train sets, and electrification & signalling equipment for metro rail and main line trains. Also, Siemens is seeing a lot of capex opportunities in housing, data centres, infra-logistics, e-mobility, and infrastructure projects apart from government-led capex.

Continuous focus on automation and digitalization

As a part of its global strategy to focus on automation and digitalization from the low-margin electrification business, Siemens has sold short-cycle, asset-light, low-voltage (part of the digital industries segment) business to its parent Siemens AG for Rs22bn. The revenue of this business was at Rs10.6bn with a net profit of Rs1.3bn, representing 7% of total revenue and 9% of total profit in FY22. The valuation of the low-voltage business is through DCF methodology, assuming WACC of 12.4% and EBITDA multiple of 15.5x.

Retain ADD rating with a higher target price of Rs4,255

Order-win momentum in the mobility segment surprised positively while the uptick in capex and digital penetration should aid smart infra/DI growth. We factor in the sale of low-voltage business and thus cut FY23F-25F revenue by 1% to 2%, which will be partially offset by healthy growth in other segments. We increased FY23F-25F earnings by 4-6%, factoring in margin expansion and higher other income. Retain ADD rating on Siemens with a new target price of Rs4,255 (Rs4,000 earlier). Downside risks: Slow order inflow and margin contraction.

Financial Summary

	Sep-21A	Sep-22A	Sep-23F	Sep-24F	Sep-25F
Revenue (Rsm)	134,226	158,738	193,384	221,313	249,280
Operating EBITDA (Rsm)	15,173	17,573	25,885	29,888	33,493
Net Profit (Rsm)	10,489	15,325	18,959	22,300	25,246
Core EPS (Rs)	29.5	35.4	53.3	62.6	70.9
Core EPS Growth	32.3%	20.3%	50.2%	17.6%	13.2%
FD Core P/E (x)	126.35	86.48	69.90	59.43	52.50
DPS (Rs)	7.0	10.0	12.0	14.0	14.0
Dividend Yield	0.19%	0.27%	0.32%	0.38%	0.38%
EV/EBITDA (x)	83.95	71.67	48.01	41.07	36.14
P/FCFE (x)	(116.59)	84.15	62.09	64.43	57.18
Net Gearing	(49.8%)	(56.7%)	(63.1%)	(66.0%)	(68.2%)
P/BV (x)	12.81	11.41	10.13	8.95	7.87
ROE	10.6%	11.5%	15.4%	16.0%	16.0%

% Change In Core EPS Estimates
 InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Order growth momentum continues

2QFY23 results update

Conference-call highlights

- **Demand:** The growth momentum continued with most major verticals posting a healthy growth for the past 12 months and are likely to continue the trend in the near term. Siemens is highly optimistic on the capex front with strong growth seen in short-cycle and high-volume project business. Management expects strong momentum across verticals. The softness in commodity prices helps in margin expansion along with strong revenue growth. The company's interest remains in digitalization.
- **Order inflow:** The 2QFY23 order inflow was strong at Rs311bn, up 5.8x yoy (+8.1% yoy on a comparable basis) and higher than the FY22 order inflow of Rs196bn, led by a 9,000HP electric locomotive order worth Rs254bn for supplying 1,200 such units over the next 11 years. Siemens will continue to focus on providing cutting-edge technologies for passenger trains and freight transportation. The mobility business aims to achieve optimized rail network throughput and higher asset availability. The Ministry of Railways has been driving upgradation of technology and modernization of track, signaling equipment and telecommunication. Deliveries are scheduled over an 11-year period, starting from FY24, and the contract covers 35 years of full maintenance. Increased electrification of the rail network and higher spending on metro rail projects, we feel, will lead to healthy growth in the coming years.
- **Margins:** Cost control measures, better price extraction, and lower discretionary expenses helped in maintaining the EBITDA margin at 12.4% (flat yoy) in 2QFY23 and at 13.6% (+230 bp yoy) in 1HFY23.
- **Sale of low-voltage business for Rs22bn:** Siemens sold its short-cycle, asset-light, low-voltage business (part of the digital industries or DI segment) to parent Siemens AG for Rs22bn. The revenue of this business stood at Rs10.6bn with a net profit of Rs1.3bn, representing 7% of total revenue and 9% of total profit in FY22. The valuation of the low-voltage business is through the discounted cash flow or DCF methodology, assuming WACC of 12.4% and EBITDA multiple of 15.5x. Siemens' board is likely to declare a special dividend from the sale proceeds. This is a part of its global strategy to focus on automation and digitalization from the low-margin electrification business. Siemens has a presence in the premium segment when compared to peers who are mainly in the low-price segment. The synergy level is not substantial in this business. In the digital industries business, automation is real, motors can be outsourced based on the requirement, and the key driver is automation and digitalization. Siemens is the global leader in automation.
- **Acquisition of electric vehicle or EV components business:** Siemens has entered into a definitive agreement for the acquisition of the electric vehicle division of Mass-Tech Controls Pvt Ltd, on a slump sale basis, for Rs380m. With this acquisition, Siemens will meet the fast-growing demand for EV charging infrastructure in India, expand local market presence & enable the creation of an export hub. The company is looking to expand its range of e-mobility solutions, complementing Siemens AG's global portfolio.
- **Greenfield capex:** Siemens is seeing a lot of greenfield capex opportunities in segments like housing, data centres, logistics, warehousing, semi-conductors, e-mobility, and infrastructure. The company expects a strong capex in railways and a pick-up in TBCB orders.
- **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.

Key result highlights

- In 2QFY23, Siemens posted standalone revenue of Rs44bn (+29% yoy, +22% qoq), 7% above our estimate and 3% above BB consensus estimate.
- Sales growth was visible across segments, with revenue of the mobility segment growing by 78% yoy to Rs4.5bn, of the energy segment rising by 30% yoy to Rs15.5bn, of the digital industries segment jumping by 31% yoy to Rs11.4bn and the smart infra segment reporting a 14% yoy growth to Rs13.7bn.
- EBITDA at Rs5.5bn (+29% yoy) was 2% above our estimate of Rs5.4bn (17% above BB consensus estimate).
- The EBITDA margin stood at 12.4% (flat yoy, -264bp qoq) vs. our estimate of 13% and consensus estimate of 12.1%. Siemens has a history of volatile quarterly margin performance.
- The EBIT margin of the smart infra segment expanded by 475bp yoy to 12.2% while other segments witnessed margin contraction on yoy and qoq basis. The energy segment's margins stood at 11.4%, down 222bp yoy, while EBIT margin of the mobility segment declined by 306bp yoy to 6.2%.
- Other income stood at Rs1.9bn (+195% yoy).
- Tax rate was at 25.2% vs. 26.1% in 2QFY22.
- PAT at Rs5.2bn (+62% yoy) was 27%/47% above our/BB consensus estimates, respectively, on the back of higher sales.

Order inflow and backlog

- 2QFY23 order inflow was strong at Rs311bn, up 5.8x yoy (+8.1% yoy on a comparable basis), higher than the FY22 order inflow of Rs196bn, led by a 9,000HP electric locomotive order worth Rs254bn for supplying 1,200 such units over the next 11 years. We expect the order inflow momentum to continue, with near-term opportunities like electric locomotives and Vande Bharat trains.
- The order backlog as at end-2QFY23 stood at Rs450bn (+162% yoy).

Figure 1: Standalone quarterly financials

Rs m	2QFY23	2QFY22	YoY (%)	1QFY23	QoQ (%)	1HFY23	1HFY22	YoY (%)	2QFY23F	Variation
Sales	44,005	34,173	28.8	35,962	22.4	79,967	66,138	20.9	41,178	6.9%
Other operating income	647	576	12.3	491	31.8	1,138	1,010	12.7	622	
Total Revenues	44,652	34,749	28.5	36,453	22.5	81,105	67,148	20.8	41,801	6.8%
Raw material cost	-30,946	-23,585	31.2	-24,507	26.3	-55,453	-45,805	21.1	-28,001	11%
Employee expenses	-4,724	-3,953	19.5	-4,518	4.6	-9,242	-8,264	11.8	-4,348	9%
Other Expenses	-3,433	-2,911	17.9	-1,936	77.3	-5,369	-5,460	(1.7)	-4,035	-15%
EBITDA	5,549	4,300	29.0	5,492	1.0	11,041	7,619	44.9	5,415	2%
Other income	1880	638	194.7	949	98.1	2,829	1,209	134.0	689	173%
EBIT	6,891	4,415	56.1	5,926	16.3	12,817	7,767	65.0	5,540	24%
Interest income/(expenses)	(74)	-103	(28.2)	(50)	48.0	-124	-157	(21.0)	(111)	
Depreciation	-538	-523	2.9	-515	4.5	-1,053	-1,061	(0.8)	-565	-5%
PBT	6,817	4,312	58.1	5,876	16.0	12,693	7,610	66.8	5,428	26%
Tax	-1,657	-1,125	47.3	-1,500	10.5	-3,157	-1,970	60.3	-1,368	
Reported PAT	5,160	3,187	61.9	4,376	17.9	9,536	5,640	69.1	4,060	27%
Extraordinary items	-	-	-	-	-	-	-	-	-	
Adjusted PAT	5,160	3,187	61.9	4,376	17.9	9,536	5,640	69.1	4,060	27%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Standalone key ratios

Key ratios (%)	2QFY23	2QFY22	YoY (%)	1QFY23	QoQ (%)	1HFY23	1HFY22	YoY (%)
Raw material / Sales	68.0	67.9	13 bp	67.2	77 bp	68.4	68.2	16 bp
Employee expenses / Sales	10.6	11.4	-80 bp	12.4	-181 bp	11.4	12.3	-91 bp
Other expenses / Sales	9.8	8.4	142 bp	5.3	449 bp	6.6	8.1	-151 bp
EBITDA Margin (%)	12.4	12.4	5 bp	15.1	-264 bp	13.6	11.3	227 bp
PBT Margin	15.5	12.6	287 bp	16.3	-85 bp	15.9	11.5	437 bp
Tax rate	25.2	26.1	-89 bp	25.5	-33 bp	24.9	25.9	-102 bp
PAT margin	11.7	9.3	240 bp	12.2	-44 bp	11.9	8.5	340 bp
Core EPS (Rs)	14.5	8.9	61.9	12.3		26.8	15.8	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Standalone segmental analysis

Revenue (Rs m)	2QFY23	2QFY22	YoY (%)	1QFY23	QoQ (%)	1HFY23	1HFY22	YoY (%)
Energy	15,554	11,958	30.1	11,601	34.1	27,155	22,850	18.8
Smart Infrastructure	13,699	12,055	13.6	11,888	15.2	25,587	24,930	2.6
Digital Industries	11,407	8,739	30.5	10,193	11.9	21,600	16,649	29.7
Mobility	4,488	2,529	77.5	3,449	30.1	7,937	5,334	48.8
Others	337	292	15.4	233	44.6	570	454	25.6
Total segment revenue	45,485	35,573	27.9	37,364	21.7	82,849	71,518	15.8
less: Inter-segment revenue	833	824	1.1	911	(8.6)	1,744	1,462	19.3
Net Sales	44,652	34,749	28.5	36,453	22.5	81,105	70,056	15.8
EBIT	2QFY23	2QFY22	YoY (%)	1QFY23	QoQ (%)	1HFY23	1HFY22	YoY (%)
Energy	1,766	1,623	8.8	1,331	32.7	3,097	2,855	8.5
Smart Infrastructure	1,676	902	85.8	1,214	38.1	2,890	1,517	90.5
Digital Industries	1,277	992	28.7	2,427	(47.4)	3,704	1,658	123.4
Mobility	278	234	18.8	-5	(5,660.0)	273	464	(41.2)
Others	14	26	(46.2)	10	40.0	24	34	(29.4)
Total	5,011	3,777	32.7	4,977	0.7	9,988	6,558	52.3
EBIT Margin (%)								
Energy	11.4%	13.6%	-222 bp	11.5%	-12 bp	11.4%	12.5%	-109 bp
Smart Infrastructure	12.2%	7.5%	475 bp	10.2%	202 bp	11.3%	6.1%	521 bp
Digital Industries	11.2%	11.4%	-16 bp	23.8%	-1,262 bp	17.1%	10.0%	719 bp
Mobility	6.2%	9.3%	-306 bp	-0.1%	634 bp	3.4%	8.7%	-526 bp
Others	4.2%	8.9%	-475 bp	4.3%	-14 bp	4.2%	7.5%	-328 bp
Total EBIT margin	11.0%	10.6%	40 bp	13.3%	-230 bp	12.1%	9.2%	289 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Consolidated quarterly financials

Rs m	2QFY23	2QFY22	YoY (%)	1QFY23	QoQ (%)	1HFY23	1HFY22	YoY (%)
Sales	47,901	37,381	28.1	39,638	20.8	87,539	73,895	18.5
Other operating income	677	630	7.5	515	31.5	1,192	1,162	2.6
Total Revenue	48,578	38,011	27.8	40,153	21.0	88,731	75,057	18.2
Raw material cost	-33,254	-25,729	29.2	-26,702	24.5	-59,956	-51,284	16.9
Employee expenses	-5,077	-4,297	18.2	-4,963	2.3	-10,040	-8,972	11.9
Other expenses	-4,035	-3,291	22.6	-2,495	61.7	-6,530	-6,091	7.2
EBITDA	6,212	4,694	32.3	5,993	3.7	12,205	8,710	40.1
Other income	1166	668	74.6	1017	14.7	2,183	1,264	72.7
EBIT	6,593	4,574	44.1	6,249	5.5	12,842	8,380	53.2
Interest income/(expenses)	(99)	(128)	(22.7)	(37)	167.6	(136)	(189)	(28.0)
Depreciation	-785	-788	(0.4)	-761	3.2	-1,546	-1,594	(3.0)
PBT	6,494	4,446	46.1	6,212	4.5	12,706	8,191	55.1
Tax	-1,776	-1,148	54.7	-1,584	12.1	-3,360	-1,998	68.2
Reported PAT	4,718	3,298	43.1	4,628	1.9	9,346	6,193	50.9
Extraordinary items	-	-	-	-	-	-	-	-
Adjusted PAT	4,718	3,298	43.1	4,628	1.9	9,346	6,193	50.9

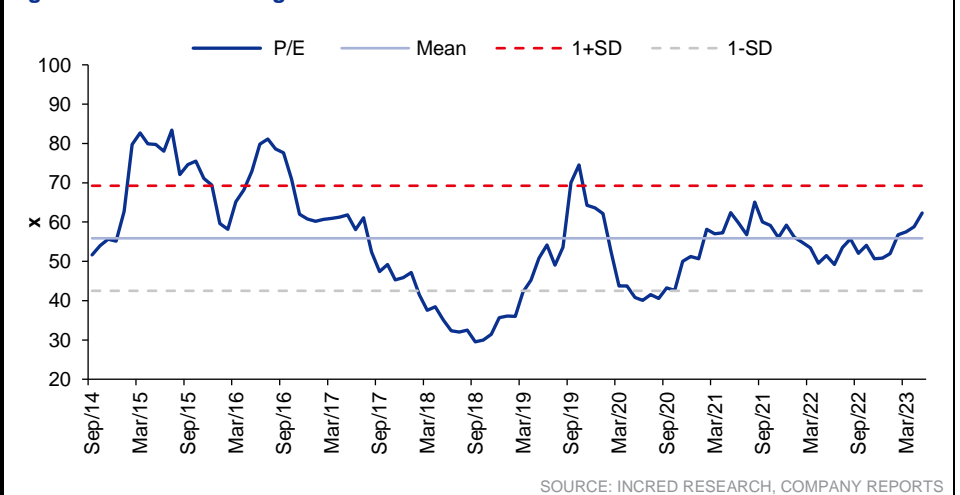
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Change in our earnings estimates

(Rs m)	Old estimates			New estimates			Change (%)		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY24F
Revenue	1,94,960	2,24,911	2,54,442	1,93,384	2,21,313	2,49,280	-0.8%	-1.6%	-2.0%
EBITDA	24,977	29,261	31,999	25,885	29,888	33,493	3.6%	2.1%	4.7%
PAT	18,064	21,404	23,746	18,959	22,300	25,246	5.0%	4.2%	6.3%

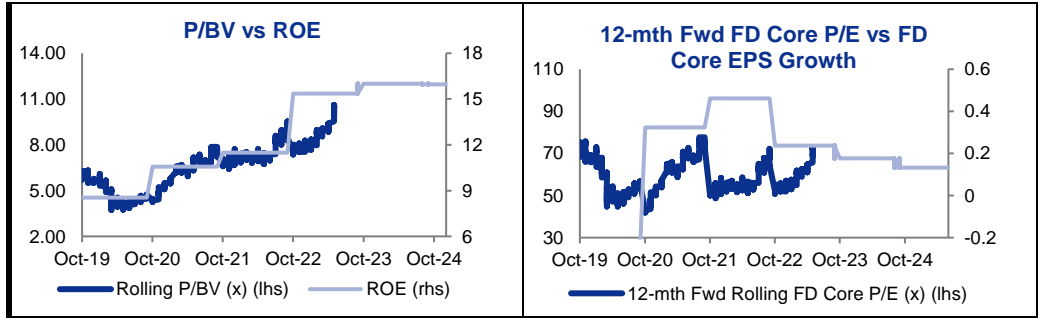
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 6: Siemens trading above its mean level



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Sep-21A	Sep-22A	Sep-23F	Sep-24F	Sep-25F
Total Net Revenues	136,380	161,378	193,384	221,313	249,280
Gross Profit	43,263	52,115	63,817	73,033	82,262
Operating EBITDA	15,173	17,573	25,885	29,888	33,493
Depreciation And Amortisation	(3,005)	(3,171)	(2,950)	(2,809)	(2,997)
Operating EBIT	12,168	14,402	22,935	27,079	30,496
Financial Income/(Expense)	(246)	(363)	(363)	(343)	(343)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,265	3,078	3,145	3,513	4,092
Profit Before Tax (pre-EI)	14,187	17,117	25,717	30,248	34,244
Exceptional Items					
Pre-tax Profit	14,187	17,117	25,717	30,248	34,244
Taxation	(3,698)	(4,498)	(6,758)	(7,949)	(8,999)
Exceptional Income - post-tax		2,706			
Profit After Tax	10,489	15,325	18,959	22,300	25,246
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	10,489	15,325	18,959	22,300	25,246
Recurring Net Profit	10,489	12,619	18,959	22,300	25,246
Fully Diluted Recurring Net Profit	10,489	12,619	18,959	22,300	25,246

Cash Flow

(Rs mn)	Sep-21A	Sep-22A	Sep-23F	Sep-24F	Sep-25F
EBITDA	15,173	17,573	25,885	29,888	33,493
Cash Flow from Invt. & Assoc.	(115)	(456)	(169)	360	752
Change In Working Capital	2,339	1,372	(6,212)	(2,883)	(3,411)
(Incr)/Decr in Total Provisions	(184)				
Other Non-Cash (Income)/Expense	3,005	3,171	2,950	2,809	2,997
Other Operating Cashflow	(2,262)	(2,715)	(2,782)	(3,170)	(3,749)
Net Interest (Paid)/Received					
Tax Paid	(3,735)	(4,498)	(6,758)	(7,949)	(8,999)
Cashflow From Operations	14,221	14,447	12,916	19,056	21,084
Capex	(1,177)	(1,751)	5,285	(2,000)	(2,000)
Disposals Of FAs/subsidiaries	3,862				
Acq. Of Subsidiaries/investments	(17,382)				
Other Investing Cashflow	(9,196)	3,078	3,145	3,513	4,092
Cash Flow From Investing	(23,893)	1,327	8,430	1,513	2,092
Debt Raised/(repaid)	(1,695)	(25)			
Proceeds From Issue Of Shares		842			
Shares Repurchased					
Dividends Paid	(2,493)	(3,560)	(4,272)	(4,984)	(4,984)
Preferred Dividends					
Other Financing Cashflow	(830)	(363)	(363)	(343)	(343)
Cash Flow From Financing	(5,018)	(3,106)	(4,635)	(5,327)	(5,327)
Total Cash Generated	(14,690)	12,668	16,711	15,242	17,848
Free Cashflow To Equity	(11,367)	15,749	21,346	20,569	23,175
Free Cashflow To Firm	(9,672)	15,774	21,346	20,569	23,175

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Sep-21A	Sep-22A	Sep-23F	Sep-24F	Sep-25F
Total Cash And Equivalents	51,591	65,841	82,552	97,793	114,932
Total Debtors	37,738	39,194	52,291	59,915	67,549
Inventories	17,969	21,650	26,031	29,827	33,627
Total Other Current Assets	39,407	41,830	50,092	56,783	64,007
Total Current Assets	146,705	168,515	210,966	244,319	280,115
Fixed Assets	20,666	19,246	11,011	10,201	9,204
Total Investments					
Intangible Assets	11,732	12,354	12,354	12,354	12,354
Total Other Non-Current Assets	473	975	975	975	975
Total Non-current Assets	32,871	32,575	24,340	23,530	22,533
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	62,899	71,782	86,309	98,893	111,492
Other Current Liabilities	13,081	13,130	18,132	20,776	23,423
Total Current Liabilities	75,980	84,912	104,441	119,668	134,915
Total Long-term Debt	25				
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	25				
Total Provisions					
Total Liabilities	76,005	84,912	104,441	119,668	134,915
Shareholders Equity	103,490	116,102	130,789	148,105	168,366
Minority Interests	81	76	76	76	76
Total Equity	103,571	116,178	130,865	148,181	168,442

Key Ratios					
	Sep-21A	Sep-22A	Sep-23F	Sep-24F	Sep-25F
Revenue Growth	38.9%	18.3%	20.2%	14.6%	12.7%
Operating EBITDA Growth	47.8%	15.8%	47.3%	15.5%	12.1%
Operating EBITDA Margin	11.3%	11.1%	13.6%	13.7%	13.6%
Net Cash Per Share (Rs)	144.85	184.95	231.89	274.70	322.84
BVPS (Rs)	290.70	326.13	367.38	416.02	472.94
Gross Interest Cover	49.46	39.67	63.18	78.95	88.91
Effective Tax Rate	26.1%	26.3%	26.3%	26.3%	26.3%
Net Dividend Payout Ratio	23.8%	28.2%	22.5%	22.4%	19.7%
Accounts Receivables Days	93.62	87.00	86.34	92.53	93.32
Inventory Days	57.07	66.17	67.16	68.75	69.34
Accounts Payables Days	220.65	224.96	222.68	227.94	229.89
ROIC (%)	27.2%	20.6%	33.9%	41.2%	44.5%
ROCE (%)	12.3%	13.1%	18.6%	19.4%	19.3%
Return On Average Assets	6.4%	6.8%	8.8%	9.0%	8.9%

Key Drivers					
	Sep-21A	Sep-22A	Sep-23F	Sep-24F	Sep-25F
Revenues	129,661	154,480	185,105	211,792	238,395
yoy growth (%)	30	19	20	14	13
EBIT	12,850	13,974	22,498	26,405	29,532
EBIT margins (%)	10	9	12	12	12
Order inflow	142,343	194,221	438,061	215,011	241,544
yoy growth (%)	32	36	126	(51)	12
Order backlog	135,200	171,830	424,785	428,005	431,155
yoy growth (%)	9	27	147	1	1

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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