

July 14, 2014

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NSE Code: SIEMENS

Reuters Code: SIEM.BO

Bloomberg Code: SIEM:BO

Siemens is the flagship company of Siemens AG in India, which holds 75% in Siemens. Siemens comprising 13 legal entities is a leading powerhouse in electronics and electrical engineering with a business volume aggregating about ₹120 bn. It operates in the core business areas of industry, infrastructure & cities, energy and healthcare. It has its own nation-wide sales and service network, and have 21 manufacturing facilities across India. Siemens has a strong product portfolio and servicing capabilities in the Indian economy's four core sectors: Energy (power T&D & generation solution), Infrastructure, Industry and the Consumer businesses. With its strategy of spreading its product footmark in India, Siemens stands to suggestively benefit from India's long-term evolution opportunity.

Investor's Rationale

Continue to benefit from long term growth opportunity: Siemens has a strong product portfolio and servicing capabilities in the Indian economy's four core sectors: Energy, Infrastructure, Industry and the Consumer businesses (healthcare, water). The company's healthcare segment performed well and we expect this trend to continue. With a strategy of aggressively widening its product footprint in India, Siemens stands to significantly benefit from the long-term growth opportunity in India.

Sustained revival in order book bodes well for Siemens: Though, the 48.9% YoY rise in H1 Mar'14 net profit is encouraging, however, the decline in new order intake by 4% YoY still remain a major concern for the company. While, with a new government at center, we have already seen early sign of improvement in the business confidence. Thus, we believe that sustained revival in order book supported by government's focus to revive Indian economy.

Government focus towards economy revival to improve earning's visibility: The growth of the company is also dependent on the implementation of Government policies to promote infrastructure development and create an environment conducive to investment in capital goods within the country. We believe the investments will drive strong growth during the next 2-3 years. Thus, we believe that various initiatives taken by the company through its 5-point program to result in higher earning visibility on the back of better cost structure.

Well positioned to gain synergies: Shareholders of Siemens have approved the acquisition of 100% equity shares of Siemens Rail Automation. Siemens Rail Automation is engaged in the business of manufacture, supply, design, installation and commissioning of Railway signaling equipment consisting of trackside and on board equipment. The business is complementary to the existing business of the Siemens. Thus we expect operational efficiency to improve thereby resulting in higher profit going ahead.

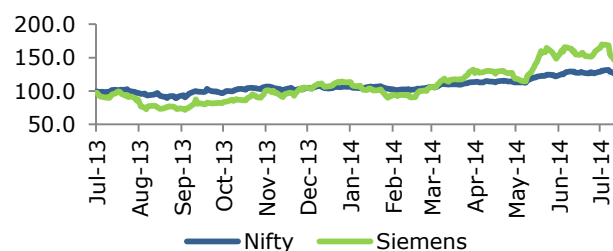
Market Data

Rating	BUY
CMP (₹)	866.0
Target (₹)	1,050
Potential Upside	~21.2%
Duration	Long Term
Face Value (₹)	2.0
52 week H/L (₹)	1010.0/414.0
Adj. all time High (₹)	1125.0
Decline from 52WH (%)	14.3
Rise from 52WL (%)	109.2
Beta	2.2
Mkt. Cap (₹bn)	308.3
Enterprise Value (₹bn)	304.0

Fiscal Year Ended

Y/E	Sept'12	Sept'13	Sept'14E	Sept'15E
Revenue(₹bn)	129.2	113.5	120.3	132.4
EBITDA (₹bn)	8.9	4.2	8.3	9.1
Net Profit (₹bn)	3.4	1.9	2.1	2.4
EPS (₹)	10.1	5.4	5.8	6.7
P/E (x)	85.9	158.9	148.3	130.1
P/BV (x)	7.4	7.6	7.6	7.5
EV/EBITDA (x)	32.1	72.0	36.6	33.2
ROCE (%)	12.5	5.4	13.9	15.5
ROE (%)	8.7	4.8	5.1	5.8

One year Price Chart



Shareholding Pattern

Shareholding Pattern	Mar'14	Dec'13	Diff.
Promoters	67.8	67.8	-
FII	11.9	11.0	0.9
DII	8.9	9.7	(0.8)
Others	11.4	11.5	(0.1)

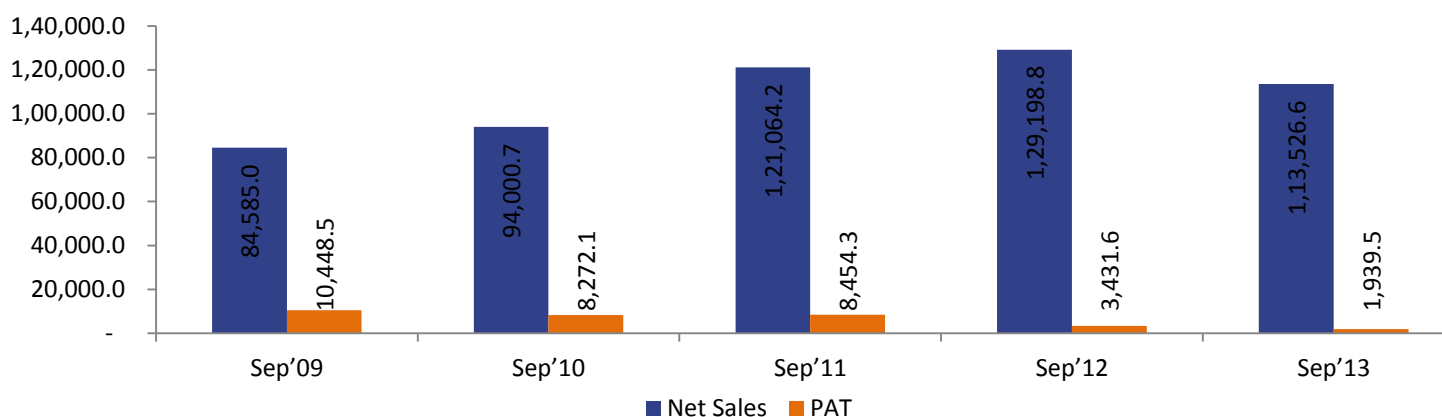
Siemens has a strong product portfolio and servicing capabilities in the Indian economy's four core sectors: Energy (power T&D and generation solution), Infrastructure, Industry and the Consumer businesses (healthcare, water).

Siemens, a leading powerhouse in electronics and electrical engineering

Siemens in India is a leading powerhouse in electronics and electrical engineering with a business volume aggregating about ₹120.0 bn. Siemens Ltd., in which Siemens AG (Germany) holds 75% of the capital, is the flagship listed company of the Siemens group in India. It is the only Siemens company in the world other than parent Siemens AG and Siemens Inc. in America that is listed on the stock exchanges (NSE: SIEMENS; BSE: SIEMENS). It operates in the core business areas of industry, infrastructure & cities, energy and healthcare. Company has its own nation-wide sales and service network, 21 manufacturing plants and employs about 19,000 people. Siemens, as an integrated technology provider, has a wide range of future-oriented solutions to be a partner in India's growth story. Siemens in India focuses on sustainable growth, innovation and environmental solutions. Along with leveraging its strong presence in the high-end technology segment, Siemens is also building a portfolio of innovative, simple-to-use, maintenance-friendly, affordable, reliable and timely-to-market solutions customized especially for India.

Siemens has a strong product portfolio and servicing capabilities in the Indian economy's four core sectors: Energy (power T&D and generation solution), Infrastructure, Industry and the Consumer businesses (healthcare, water). With a strategy of aggressively spreading its product footprint in India, Siemens stands to suggestively benefit from India's long-term evolution opportunity. The company has been escalating its products portfolio in industrial solutions & power space, apart from cumulating its product localization to remain competitive. We presume the company to be a major beneficiary of power and industrial capex in Indian and Middle East market, and perceive further growth avenues in Transportation, T&D, Gas EPC & industrial automation (metals, cement, oil and gas etc.) sector for the company with increasing focus of government in improving overall infrastructure and uptick in private sector spending.

Net sales and PAT growth trend (₹ in mn)



With the Government's enhanced focus on modernising various industry verticals or their manufacturing systems with a motive to improve productivity are expected to drive growth opportunities for the company. We expect sustained revival in demand on optimism over strong FII inflows, on expectations that the economy will bounce back from its sluggish phase and investments will pick up with the newly formed growth-oriented government, which is considered pro-business.

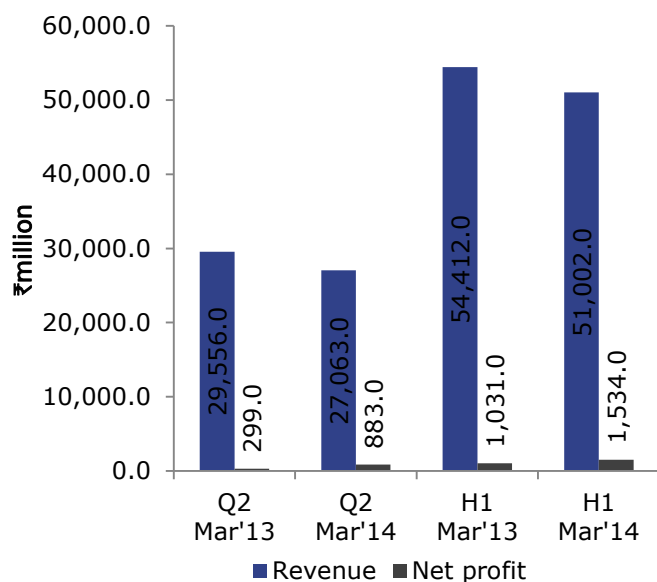
Siemens reported 8.4% decline in its sales to at ₹27,063 mn in Q2, 2014, as compared to ₹29,556 mn in Q2, 2013, mainly due to 6.6% drop in new orders.

Showcased weak numbers in quarter ended Mar'14

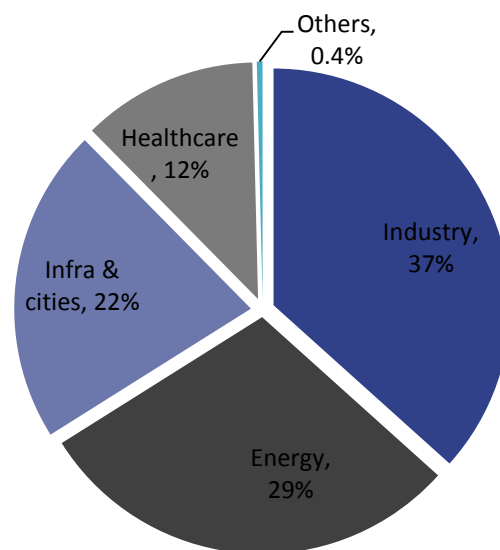
For the quarter ended Mar'14, Siemens posted a net profit of ₹883 mn as against a net profit of ₹299 mn profit for similar period last year. The rise in net profit was owing to 12% decrease in total expenses. However, Siemens reported 8.4% decline in its sales at ₹27,063 mn in Mar'14 quarter, as compared to ₹29,556 mn in Mar'13 quarter, mainly due to 6.6% YoY drop in orders intake. The decline in orders came due to delay in execution of energy and infrastructure orders. Total expenses for the Mar'14 quarter stood at ₹25,780 mn as against ₹29,550 mn for same period last year. EBITDA inched up sharply by 147% YoY to ₹1,863 mn. In line with EBITDA, EBITDA margin also inched up sharply by 430bps YoY to 6.9% on account of lower project charges, execution of higher margin orders and cost control measures taken by the company. While during H1Mar'14, the company's net sales declined by 6.3% YoY to ₹51,002 mn. However, company managed to report a robust growth of 48.9% YoY in its net profit to ₹1,534 mn in H1Mar'13.

The company registered new orders of ₹26,201 mn in quarter ending Mar'14 compared to ₹28,065 mn in the same period last year. As per the management, lack of orders and industry confidence is hurting the sector. Siemens is implementing cost reduction programme aimed at improving profitability.

Improved Mar'14 performance



Revenue contribution at the end of Mar'14

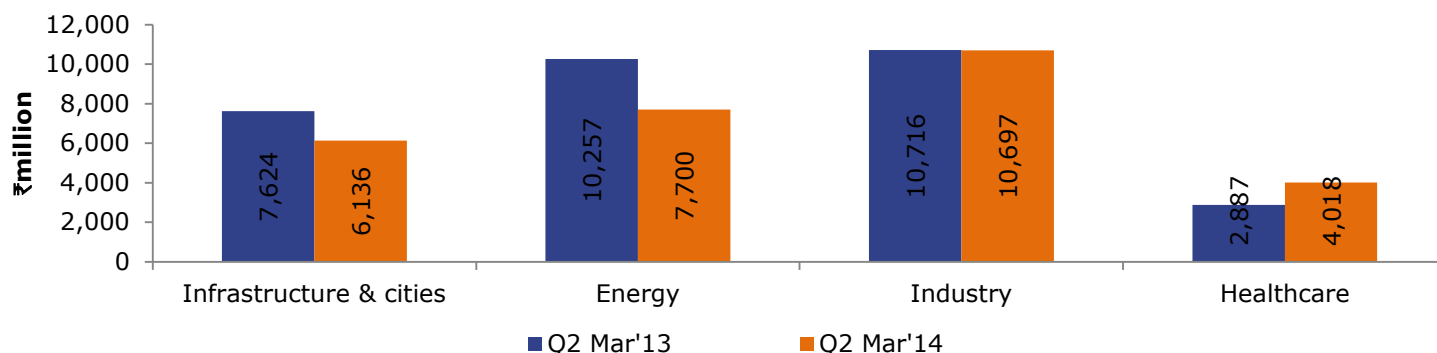


Siemens India's growing presence in the parent's global footprint

Siemens is emerging as a key partner in Siemens AG's global growth strategy. This has been vindicated by growing investment by the Siemens group in India. Siemens India is also the key beneficiary of the group's growing presence in other developing regions like the Middle East.

Siemens has meaningfully benefited from ongoing infrastructure investment in the Middle East, particularly Qatar. Siemens India, along with Siemens AG, bagged orders worth ₹95 bn (Siemens share) from Qatar General Water and Electricity Corporation (Kahramaa), Qatar's monopoly power and water Distribution Company, and a project from Ezdan Real Estate QSC. Thus, we believe that India will be a key sourcing destination for value price products.

Segmental performance during Mar'14 quarter



We expect Siemens will enhance its product base in India, which will provide long-term growth opportunities in the space. We believe Siemens India will be a major sourcing destination for medical diagnostic products.

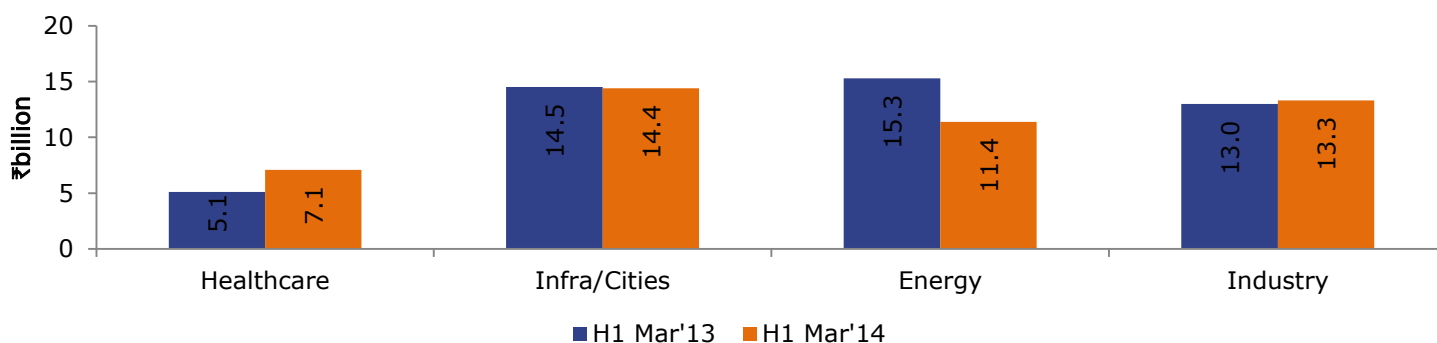
Healthcare segment will continue to post strong performance

The Indian medical device and equipment market is expected to grow at a CAGR of 15.5% to reach at \$7.8 bn by 2016. The Healthcare Sector provides end-to-end solutions including diagnostics, imaging and therapy. With the market for healthcare services expected to grow in moderation, the sector will seek to increase market penetration for its range of solutions by expanding its distribution channels and customer interface points. In addition, cost optimisation, profitability enhancement and strengthening the organisation's capabilities will remain key focus areas.

Siemens India, with market share of 18-20%, is the market leader in this space, followed by Wipro, GE and Philips. Siemens has a manufacturing base in Goa for high-end products like X-ray mobile machines. However, nearly 80% of the products sold are sourced from Siemens AG (parent). During the year ended Sept'13, Healthcare Sector received a major order from Sir HN Hospital and Research Centre, Mumbai (Reliance) for the complete imaging package including Computerized Tomography (CT) scan, Magnetic Resonance Imaging, Cath Labs and other imaging equipment such as Ultrasound and X-ray.

We expect that Siemens will enhance its product base in India, which will provide long-term growth opportunities in the space. During the quarter ended Mar'14, the company's Healthcare segment reported 39% increase in revenue, which was driven by strong growth in diagnostic and imaging division. Healthcare order inflow during H1Mar'14 was up by 39% YoY due to orders of diagnostics and imaging from Tier 1 and Tier 2 cities. We believe Siemens India will be a major sourcing destination for medical diagnostic products and we expect Healthcare segment to continue to post robust performance driven by new product launches and strong growth in imaging and diagnostics division in Tier-I and Tier-II cities.

New orders bagged across segment during H1 Mar'14



With the amalgamation and acquisition, company is in a position to remove duplication of work and thereby will be able to improve operating efficiency and realize higher profits

Synergies from amalgamation and acquisition to remove inefficiencies

Recently, the company has approved the acquisition of 100% equity shares of Siemens Rail Automation, a Siemens group company for a consideration of ₹550 mn, subject to all requisite regulatory approvals. Siemens Rail Automation is engaged in the business of manufacture, supply, design, installation and commissioning of Railway signaling equipment consisting of trackside and on board equipment. The business is complementary to the existing business of the company and should provide significant synergies.

Also, with the newly acquired VAI Metals which will be part of the Metals Technology business and has further cemented the parent position in steel plant equipment segment. Siemens AG has aggressive plans to make India its global hub for the manufacture of key steel plant equipment. Siemens VAI has about 20% market share in the steel plant building/modernization market in India. The company hopes to increase it to 25% over the next couple of years, as the market grows.

Siemens is continuing its efforts to realize synergies from the acquisitions made in the last couple of years and to optimize further its cost position to increase its competitiveness to earn higher income.

Siemens's initiatives program to lead improved performance

Global 5-point program on track

Reduced costs: Each sector has clear targets for cutting costs

Strengthen core activities: HQ led initiatives of focusing on SMART Strategy

Strengthen go-to-market approach across all Sectors: Siemens One Program, City Account Management

Optimize infrastructure: consolidating Siemens group companies in India

Reduce complexity: streamlining internal processes and systems

Siemens global 5-point program, includes reducing cost, strengthening core activities, strengthening go-to-market approach across all sectors, Optimize infrastructure, and Reduce complexity.

Global 5-point program on track to result in improved overall performance

Siemens believes its focus on implementation of 5-point program, which was initiated in 2013 with a motive to reduce cost (each segment having cost control targets, manufacturing facility to seek ways to reduce cost, optimize worldwide utilization), strengthening core activities (focus on SMART strategy in India), strengthening go-to-market approach across all sectors, optimizing infrastructure and reducing complexity (streamlining internal process and systems) has started yielding results in terms of stable volumes and improved profitability. Siemens has partly improved project management process to ensure focus on cash flows, ramped up focus on service businesses and optimized opex over the last few quarters to ensure the company is able to derive maximum benefit once the cycle turns. The company highlighted that significant benefits of various measures will be visible once volume picks up in the market.

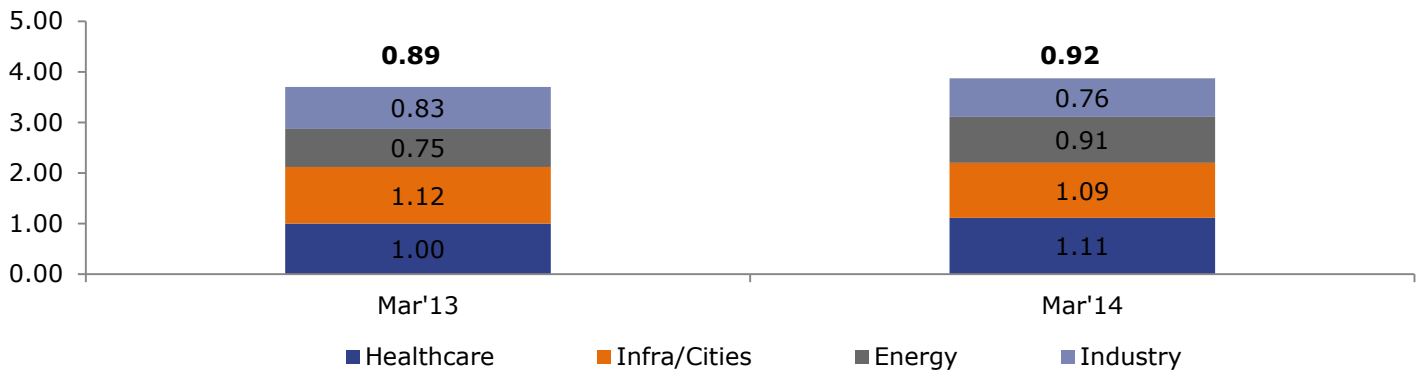
Despite of challenging economic environment, the book to bill ratio of the company witnessed a marginal improvement to 0.92x, hovering near 1x levels.

Book-bill ratio of 1x provides earning visibility over next fiscal

Siemens booked orders worth ₹46.3 bn in H1Mar'14, as against an order backlog of ₹48.1 bn in the corresponding period last year. Regarding the composition of the new orders booked, the orders from Healthcare segment have risen 39% over last year while orders from industry showed a muted growth of 2% YoY. While, the orders from Infrastructure & Cities and energy segment declined by 1% YoY and 25% YoY respectively. The company has taken several initiatives including building up of the African strategy, etc., which will drive long-term volumes.

Despite of challenging economic environment, the book to bill ratio of the company witnessed a marginal improvement to 0.92x, hovering near 1x levels. With the introduction of new investment in budget session 2014-15, we expect order book to pick-up, which in turn would boost the book bill ratio to 1.1x.

Marginal improvement in book to bill ratio in quarter ended Mar'14



We expect sustained revival in demand on optimism over strong FII inflows, on expectations that the economy will bounce back from its sluggish phase and investments will pick up with the newly formed growth-oriented government, which is considered pro-business.

Introduction of new investment in Industry and Infrastructure sector to provide growth impetus

The Industry and Infrastructure segment of Siemens accounts for around 37% and 22%, respectively of its total revenue generation. In the past six months, the revenue from both the segments has witnessed some sluggishness due to moderation in demand in both consumption-led industries as well as green-field infrastructure projects in railways, ports, and cargo etc. Reduced access to capital, fluctuating exchange rates and consistently high interest rates further pushed up the cost of capital across key industry verticals. In the Industry segment, with Government's enhanced focus on modernising various industry verticals and their manufacturing systems and thereby improving productivity, are expected to drive growth opportunities in the near term. We expect sustained revival in demand on optimism over strong FII inflows, on expectations that the economy will bounce back from its sluggish phase and investments will pick up with the newly formed growth-oriented government, which is considered pro-business.

Meanwhile, GOI has also ensured to build in large infrastructure projects in the country across various sectors, like power, railways, roads, shipping, civil aviation, and mining etc. As soon as the infrastructure order inflow revives, there is a possibility of further margin improvement. Hence, with the much expected revival in the economic activity in India, we expect revenue from both the segments to stay upbeat in FY15E.

Balance Sheet (Standalone)

Y/E (₹mn)	Sept'12A	Sept'13A	Sept'14E	Sept15E
Share Capital	681	712	712	712
Reserves & Surplus	38,922	39,591	39,890	40,479
Suspense a/c	23	0	0	0
Net Worth	39,626	40,303	40,602	41,191
Other long term liabilities	1,048	837	837	837
Long term provisions	3,075	2,535	2,535	2,535
Current Liabilities	62,698	54,765	52,438	51,177
Total Equity & Liabilities	106,447	98,440	96,412	95,740
Fixed Assets	14,972	14,678	15,431	15,740
Investments	410	432	454	476
Deferred tax assets	3,176	4,297	5,801	7,831
Loans & advances	5,341	6,164	7,150	8,294
Other assets	7,773	6,705	6,705	6,705
Current Assets	74,775	66,164	60,871	56,693
Total Assets	106,447	98,440	96,412	95,740

Key Ratios (Standalone)

Y/E	Sept'12A	Sept'13A	Sept'14E	Sept15E
EBITDA Margin (%)	6.9	3.7	6.9	6.9
EBIT Margin (%)	4.2	2.1	5.1	5.2
NPM (%)	2.6	1.7	1.7	1.8
ROCE (%)	12.5	5.4	13.9	15.5
ROE (%)	8.7	4.8	5.1	5.8
EPS (₹)	10.1	5.4	5.8	6.7
P/E (x)	85.9	158.9	148.3	130.1
BVPS (₹)	116.4	113.2	114.0	115.7
P/BVPS (x)	7.4	7.6	7.6	7.5
EV/Operating Income (x)	2.2	2.7	2.5	2.3
EV/EBITDA (x)	32.1	72.0	36.6	33.2

Profit & Loss Account (Standalone)

Y/E (₹mn)	Sept'12A	Sept'13A	Sept'14E	Sept15E
Net Sales	129,199	113,526	120,338	132,371
Operating Expense	120,286	109,319	112,052	123,257
EBITDA	8,913	4,207	8,286	9,114
Other Income	575	345	397	456
Depreciation	2,010	2,502	2,577	2,654
Exceptional item	(1,999)	325	0	0
EBIT	5,479	2,375	6,105	6,916
Interest	270	189	166	146
Profit Before Tax	5,209	2,186	5,939	6,770
Tax	1,777	246	3,860	4,400
Net Profit	3,432	1,940	2,079	2,369

Valuation and view

Siemens posted improved earnings performance during Mar'14 quarter. We believe that with the new investments proposal in the union budget will act as growth catalysts for its industry & infrastructure verticals. However, lack of orders and industry confidence provide limited upside. Siemens' cost reduction programme aimed at improving profitability bodes well for the company. The company's investment in cost control programme and project management, which will help it to maintain margins, going forward.

At a current CMP of ₹866.0, Siemens is attractively placed at P/BV of ~7.6x and 7.5x, for Sep'14E and Sep'15E, respectively. Considering the above aspects, we rate the stock as 'BUY' at a target price of ₹1,050, with a potential upside of ~21.2% for the coming 12 months.



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