

Energy demerger process kick-started; possible by 2025

Siemens at its FY23 analyst meet discussed that the capex outlook remains strong for India. Private sector capex is at an inflection point with enquiries converting to tenders. At a company level there is confidence on maintaining profitability, while corporate action could see Energy listing separately. We believe Siemens is a good play on power transmission and railways, where we are most optimistic on capex. Buy.

Corporate action should create more value: Management mentioned that the Board has received a proposal from the parent to list the energy vertical separately and will submit its report after a review. Meanwhile, focus continues to grow in transmission; power transformer capacity is being doubled and vacuum interrupters related to energy vertical is being raised by 75% in 2025-26. Post shareholder rejection of LV motor sale, there is no update as of now. We believe a potential demerger could create additional value as was seen with ABB India (ABB IN, Rs4,677, Buy) in the past.

Power Transmission seeing substantial pick-up in enquiries: Transmission bids of Rs432 bn have been awarded in CY23 vs less than Rs100 bn in CY22. Power Grid (PWGR IN, Rs232, Buy) has mentioned the bid pipeline is pegged at Rs597 bn, which compares with Rs140 bn 2 years ago. Siemens is a major player and current margins reflect less than 60% utilisation at its T&D facilities. We believe operating leverage linked upside surprise is fairly high.

Mobility – sizeable order is not margin dilutive: Siemens won Rs255 bn 9000 HP locomotive order in FY23, 55% of order flow. Management mentioned that while their bid was lower than the competition, it's because Siemens has 9000 HP technology vs. competition which is stronger in 12000 HP. Hence, bid price was not made at the cost of margins. Overall Plan is to offer package solutions and increase wallet share in railways/metro projects.

28% FY23-26E EPS CAGR, ROE moving back to 18-20% are likely triggers: Our revised PT of Rs5,000 (vs Rs4,520) factors rollover to Sept 2025E from Mar 2025, and values the share at 55x PE, which is a 10% premium to the 10-yr average and reflects better capex prospects, in our view. Downside risks: 1) Fixed cost recovery faster than revenue growth; and 2) Capex cycle trends weakening.

Exhibit 1 - Siemens: Financial Summary

Y/E Sep	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Opening order book	123,528	118,790	125,919	135,200	171,830	455,180	489,469	501,490
Net Sales	129,153	98,694	129,631	148,315	179,651	231,811	295,935	365,603
EBITDA	15,016	9,903	14,594	16,070	22,402	31,028	40,412	50,179
EBITDA (%)	11.6	10.0	11.3	10.8	12.5	13.4	13.7	13.7
Adjusted PAT	10,852	7,574	10,728	13,114	19,113	25,326	32,364	39,764
EPS (Rs)	30.5	21.3	30.1	36.8	53.7	71.1	90.9	111.7
EPS Growth (%)	21.4	(30.2)	41.6	22.2	45.7	32.5	27.8	22.9
ROCE (%)	19.8	11.5	15.1	18.3	21.0	24.3	26.4	27.4
RONW (%)	12.5	8.2	10.8	12.0	15.5	18.0	19.6	20.4
PE (x)	130.3	186.7	131.8	107.9	74.0	55.8	43.7	35.6
PBV (x)	15.6	14.9	13.7	12.2	10.9	9.3	7.9	6.7
EV/Sales (x)	10.6	13.8	10.6	9.1	7.5	5.7	4.4	3.4

Source: Company data, Jefferies estimates

(FY Sep)	2023A	2024E	2025E	2026E
Rev. (MM)	179,651	231,811	295,935	365,603
P/Rev	7.7x	6.0x	4.7x	3.8x
EBITDA (MM)	22,402.0	31,028.2	40,412.5	50,178.9
Net Profit	19,113.0	25,326.2	32,364.4	39,764.2

TARGET | ESTIMATE CHANGE

RATING	BUY
PRICE	INR3,898.60*
PRICE TARGET % TO PT	↑ INR5,000 (INR4,520) +28%
52W HIGH-LOW	INR4,244.55 - INR2,775.30
FLOAT (%) ADV MM (USD)	24.2% 18.82
MARKET CAP	INR1.4T \$16.7B
TICKER	SIEM IN

*Prior trading day's closing price unless otherwise noted.

	CHANGE TO JEF		JEF vs CONS	
	2024	2025	2024	2025
REV	-6%	-4%	NA	NA
EPS	<-1%	-2%	NA	NA
2024 (INR)	Q1	Q2	Q3	Q4
EPS	-	-	-	-
PREV				71.80

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[Capex Deep Dive: Piecing It Together](#)

[India Industrials: Momentum Remains Strong](#)

[Jefferies India Power Summit 2023: Day 1 Takeaways](#)

[Jefferies India Power Summit 2023: Day 2 Takeaways](#)

[PSU Linked Power Beneficiaries Stand Out on Valuations...](#)

[Power Grid: 1HFY24 value market share rises to 58% vs 40-45% in FY10-23](#)

[Utilities: Smart Meters - Noise Bytes Rising](#)

[NTPC: 8 GW of 15 GW 2025-26 RE target visible – still at 1x book](#)

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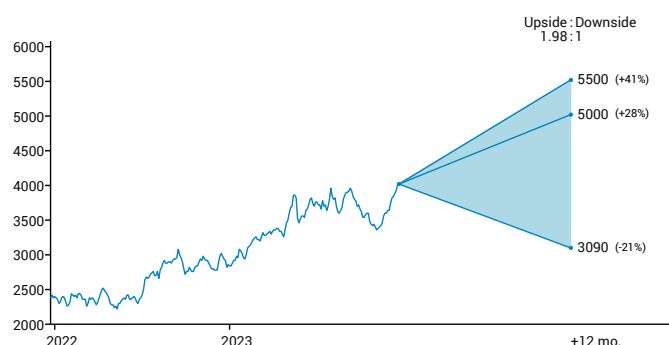
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The Long View: Siemens Limited

Investment Thesis / Where We Differ

- Further operating leverage to play out.
- Exports could surprise.

Risk/Reward - 12 Month View



Base Case, INR5000, +28%

- Siemens is a well-diversified company with multiple business drivers across the power, roads, railways, and healthcare sectors, among others.
- Margin surprise is driving 28% FY23-26E EPS CAGR.
- Sept 2025E EPS: Rs90.9; Target PE Multiple: 55x; PT Rs5,000

Upside Scenario, INR5500, +41%

- Exports rise at a faster pace to the parent and India becomes a manufacturing hub for the parent exports from India.
- Margins cross previous peak levels.
- Asset turnover improves.
- Sept. 2025E EPS: Rs100; Target PE Multiple: 55x; PT Rs5,500

Downside Scenario, INR3090, -21%

- Exports to parent fizzle out and the expected pickup in exports does not come through.
- Margins show downward surprise.
- Debtor days and inventory days along with Asset turnover do not improve.
- Sept 2025E EPS: Rs77.3; Target PE Multiple: 40x; PT Rs3,090

Sustainability Matters

Top Material Issue(s): **1)** Materials Sourcing - Siemens has adopted the Basic Conduct Guidelines (BCG), which details the minimum acceptable ethical and responsible business practices for employees, channel partners, suppliers, vendors, NGOs and contractors. **2)** Energy Management - Siemens has added 49 KW of captive solar energy in 2020. The company replaced all Compact Florescent Lamp to Light Emitting Diode light fittings in the Puducherry factory, which helped in saving 23.8 MWh of energy, among several other measures. **3)** Employee Health & Safety - Industrial operations can be inherently dangerous and Siemens is focused on it.

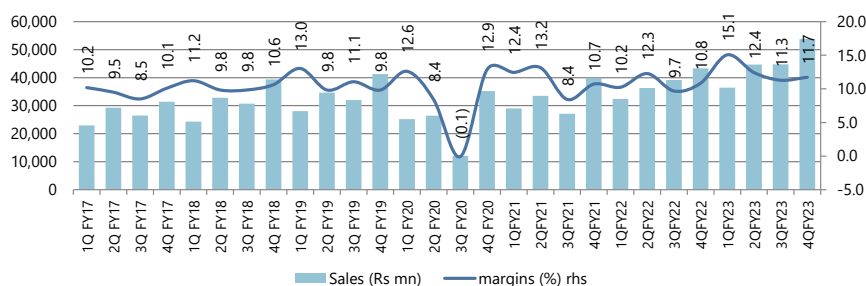
Company Targets: **1)** Increase green power usage. **2)** Recycling of utilised water.

Qs to Mgmt: **1)** What are your commitments around making environment green? **2)** What would be the margin improvement post using sustainable inputs? **3)** Any audits being undertaken at manufacturing facilities/campuses to ensure lower energy utilisation?

Catalysts

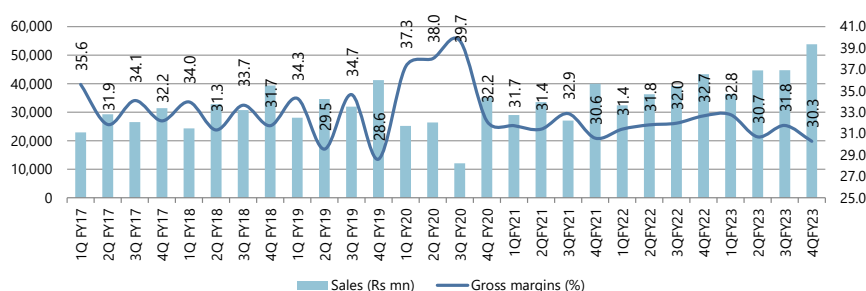
- Infra pipeline in India materialising into order flows
- Margin surprise esp. on exports

Exhibit 2 - Siemens: Margins should improve ahead as revenues rise further



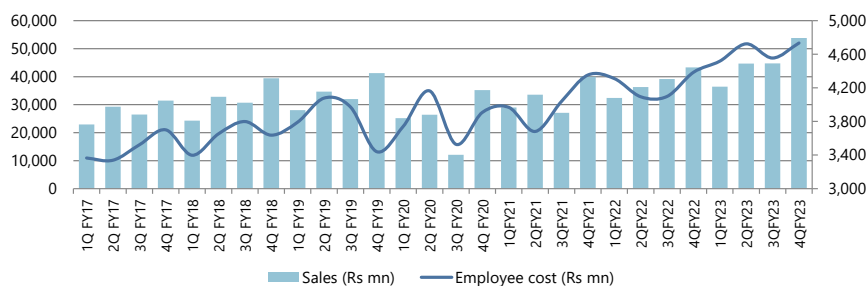
Source: Company data, Jefferies estimates

Exhibit 3 - Siemens: Cost control focus continues



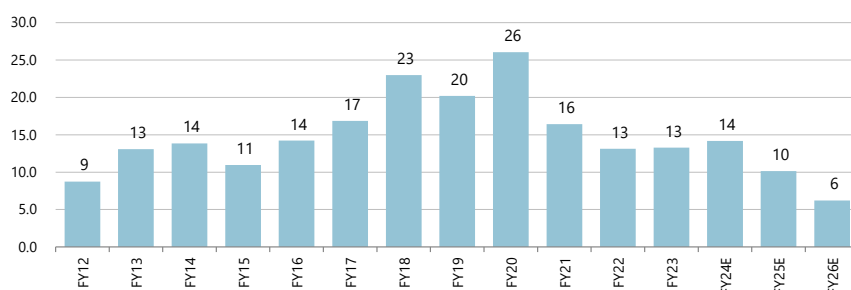
Source: Company data, Jefferies estimates

Exhibit 4 - Siemens: Employee costs should give operating leverage ahead as revenues rise faster



Source: Company data, Jefferies estimates

Exhibit 5 - NWC as % of sales to remain below 20%



Source: Companies, Jefferies estimates

Exhibit 6 - Siemens: Income Statement

Rs mn	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Income from operations	129,153	98,694	129,631	148,315	179,651	231,811	295,935	365,603
Cost of Sales and Services	87,561	63,207	88,756	100,601	123,497	157,682	202,204	250,499
as a % of sales	67.8	64.0	68.5	67.8	68.7	68.0	68.3	68.5
Employee cost	14,722	15,404	16,041	16,582	18,531	22,237	26,685	32,022
as a % of sales	11.4	15.6	12.4	11.2	10.3	9.6	9.0	8.8
Selling & Admin exp	11,854	10,180	10,240	15,062	15,221	20,863	26,634	32,904
as a % of sales	9.2	10.3	7.9	10.2	8.5	9.0	9.0	9.0
Total Expenditure	114,137	88,791	115,037	132,245	157,249	200,783	255,523	315,425
EBITDA	15,016	9,903	14,594	16,070	22,402	31,028	40,412	50,179
EBITDA (%)	11.6	10.0	11.3	10.8	12.5	13.4	13.7	13.7
Other non operational income	3,467	3,099	2,190	3,161	5,487	5,700	6,000	6,400
Interest expense	112	292	196	333	203	60	60	60
Depreciation & amortisation	1,980	2,504	2,282	2,096	2,235	2,900	3,200	3,500
Miscellaneous exp. Written off	0	0	0	0	0	0	0	0
Extraordinary income/expense	210	-9	403	2,811	0	0	0	0
PBT	16,601	10,197	14,709	19,613	25,451	33,768	43,152	53,019
Tax	5,732	2,632	3,679	4,305	6,338	8,442	10,788	13,255
Tax rate%	35	26	25	22	25	25	25	25
PAT (Reported)	10,869	7,565	11,030	15,308	19,113	25,326	32,364	39,764
PAT (Adjusted)	10,852	7,574	10,728	13,114	19,113	25,326	32,364	39,764

Source: Company data, Jefferies estimates

Exhibit 7 - Siemens: Balance Sheet

Rs mn	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	712	712	712	712	712	712	712	712
Reserves & surplus	89,724	94,028	102,725	115,247	129,533	150,587	177,612	210,968
Networth	90,436	94,740	103,437	115,959	130,245	151,299	178,324	211,680
Total loan funds	0	2,057	1,938	1,596	1,524	1,524	1,524	1,524
Deferred tax	-2,410	-2,481	-2,059	-2,392	-2,826	-2,826	-2,826	-2,826
Sources of funds	88,026	94,316	103,316	115,163	128,943	149,997	177,022	210,378
Fixed assets	20,283	21,321	20,510	21,122	23,083	25,583	28,083	30,583
Less: Depreciation/amortisation	7,797	8,791	10,057	11,143	13,378	16,278	19,478	22,978
Net block	12,486	12,530	10,453	9,979	9,705	9,305	8,605	7,605
Investments	551	551	23,092	22,954	22,855	22,855	22,855	22,855
Current Assets	136,657	141,094	138,218	159,800	179,319	234,729	294,767	364,138
Inventories	10,950	11,064	15,847	19,238	22,611	22,228	28,377	35,058
Sundry Debtors	38,762	32,063	35,260	36,705	44,786	69,861	89,186	110,182
Cash & bank balance	48,913	55,517	48,488	62,763	72,179	84,640	115,204	156,898
Loans & advances	38,032	42,450	38,623	41,094	39,743	58,000	62,000	62,000
Other current assets	0	0	0	0	0	0	0	0
Current Liabilities & provisions	61,668	59,859	68,447	77,570	83,268	117,224	149,537	184,552
advances and deposits	11,710	14,013	12,451	15,969	16,169	20,863	26,634	32,904
Other Liabilities	46,953	42,841	53,147	58,040	63,539	92,089	117,563	145,240
Provision for tax	0	0	0	0	0	0	0	0
Provision for dividend	3,005	3,005	2,849	3,561	3,560	4,272	5,340	6,408
Net current assets	74,989	81,235	69,771	82,230	96,051	117,505	145,230	179,586
Misc/others	0	0	0	0	332	332	332	332
Application of funds	88,026	94,316	103,316	115,163	128,943	149,997	177,022	210,378

Source: Company data, Jefferies estimates

Exhibit 8 - Siemens: Cashflow Statement

Rs mn	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
PBIT	16,713	10,489	14,905	19,946	25,654	33,828	43,212	53,079
Add: depreciation	1,980	2,504	2,282	2,096	2,235	2,900	3,200	3,500
Less other income	-3,467	-3,099	-2,190	-3,161	-5,487	-5,700	-6,000	-6,400
Working capital changes	3,168	358	4,591	1,104	-4,404	-9,705	1,771	6,270
Less: tax	-5,345	-2,668	-3,665	-4,610	-6,683	-8,442	-10,788	-13,255
Others	0	0	0	0	0	0	0	0
Net cash from operations (a)	13,049	7,584	15,923	15,375	11,315	12,881	31,396	43,194
Change in fixed assets	-1,239	-1,038	811	-612	-1,961	-2,500	-2,500	-2,500
Change in investments	1,041	0	-22,541	138	99	0	0	0
Add: other income	3,467	3,099	2,190	3,161	5,487	5,700	6,000	6,400
Others	0	0	0	0	0	0	0	0
Cash flow from inv (b)	3,269	2,061	-19,540	2,687	3,625	3,200	3,500	3,900
Proceeds from issue of equity	0	0	0	0	0	0	0	0
Change in borrowings	0	2,057	-119	-342	-72	0	0	0
Dividends paid+dividend tax	-2,990	-2,990	-3,004	-2,848	-3,561	-3,560	-4,272	-5,340
Interest paid	-112	-292	-196	-333	-203	-60	-60	-60
Others	-760	-1,816	-93	-264	-1,688	0	0	0
Financial cash flow (c)	-3,862	-3,041	-3,412	-3,787	-5,524	-3,620	-4,332	-5,400
Net inc/dec in cash (a+b+c)	12,456	6,604	-7,029	14,275	9,416	12,461	30,564	41,694
Add: opening cash balance	36,457	48,913	55,517	48,488	62,763	72,179	84,640	115,204
Closing cash balance	48,913	55,517	48,488	62,763	72,179	84,640	115,204	156,898

Source: Company data, Jefferies estimates

Exhibit 9 - Siemens: Key Ratios

Particulars	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net debt:equity	-0.5	-0.6	-0.5	-0.5	-0.5	-0.5	-0.6	-0.7
Diluted EPS (Rs)	30.5	21.3	30.1	36.8	53.7	71.1	90.9	111.7
BVPS (Rs)	254.0	266.1	290.6	325.7	365.9	425.0	500.9	594.6
Dividend per share	7.0	7.0	8.0	10.0	10.0	12.0	15.0	18.0
Dividend payout	27.6	39.5	26.5	27.1	18.6	16.9	16.5	16.1
Valuation (x)								
Diluted PE	130.3	186.7	131.8	107.9	74.0	55.8	43.7	35.6
Diluted EV/EBITDA	90.9	137.4	93.7	84.2	60.0	42.9	32.2	25.1
Diluted EV/S	10.6	13.8	10.6	9.1	7.5	5.7	4.4	3.4
PBV	15.6	14.9	13.7	12.2	10.9	9.3	7.9	6.7
Profitability Ratios								
ROCE %	19.8	11.5	15.1	18.3	21.0	24.3	26.4	27.4
ROE%	12.5	8.2	10.8	12.0	15.5	18.0	19.6	20.4
Turnover Ratios								
Inventory in days	32	41	38	43	43	35	35	35
Debtor days	107	131	95	89	83	110	110	110
Creditors turnover	130	166	135	137	124	145	145	145
Wkq. Capital cycle	9	6	-2	-5	2	0	0	0

Source: Company data, Jefferies estimates

Company Description

Siemens Limited

Siemens Limited is a part of Siemens Group, which has had a presence for 160 years in 190 regions. Siemens Limited operates in three major segments: Industry, Energy and Healthcare. Presently it has 21 manufacturing plants and more than 500 channel partners across India.

Company Valuation/Risks

Siemens Limited

Our price target of Rs5,000 is based on a 55x Sept. 2025'E P/E. Downside risks: 1) margins show downward surprise and 2) debtor days and inventory days along with asset turnover do not improve.

ABB Limited

Our PT of Rs5,260 values ABB at 55x Jun'25E EPS. Risks include a sharp scale-down in exports by the parent and decreasing cost focus.

Power Grid Corporation of India Limited

Price target of Rs235 values PGCIL at 2.4x consol P/B Sep'25E. Downside risks: 1) PGCIL losing share sharply in TBCB. 2) Stance change in Invit monetisation policy or use of proceeds.

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Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

Recommendation Published December 21, 2023 , 08:37 ET.

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Explanation of Jefferies Ratings

Buy - Describes securities that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes securities that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% or less within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Jefferies policies.

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Jefferies Franchise Picks

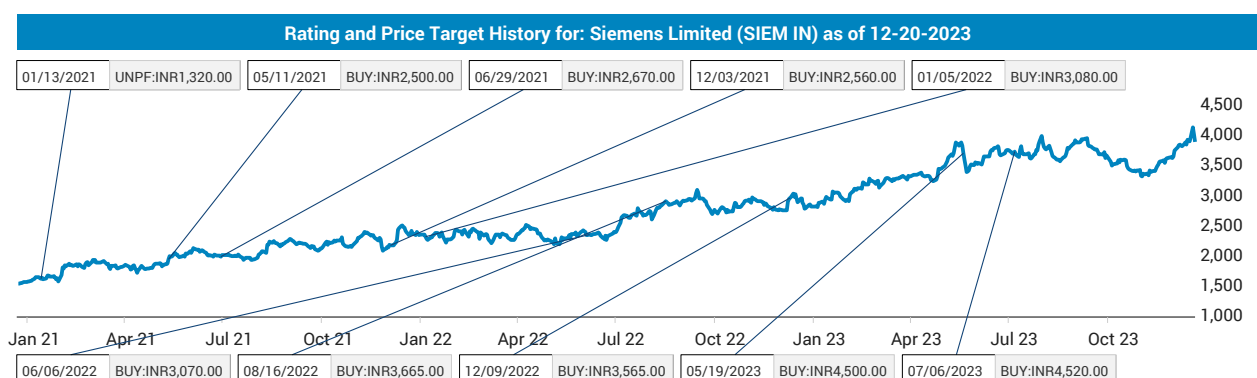
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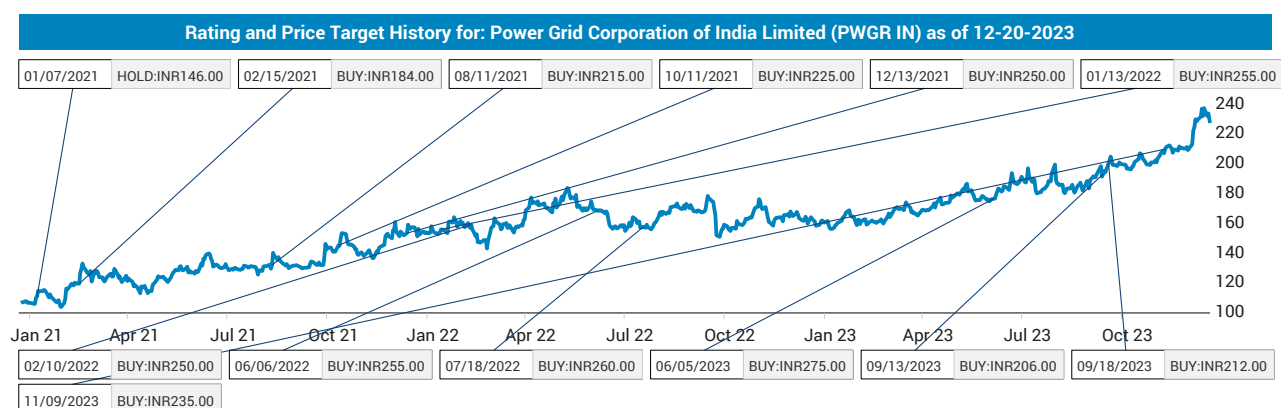
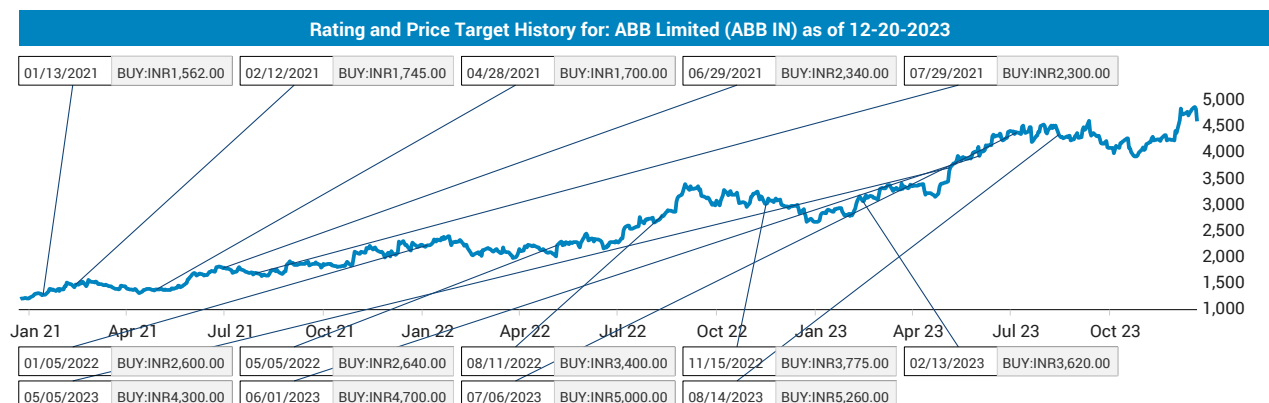
Risks which may impede the achievement of our Price Target

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Other Companies Mentioned in This Report

- ABB Limited (ABB IN: INR4,608.10, BUY)
- Power Grid Corporation of India Limited (PWGR IN: INR227.20, BUY)





Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

Distribution of Ratings

	Count		IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
	Count	Percent	Count	Percent	Count	Percent
BUY	1941	58.41%	318	16.38%	113	5.82%
HOLD	1220	36.71%	109	8.93%	16	1.31%
UNDERPERFORM	162	4.88%	4	2.47%	2	1.23%

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