Monthly Overview

August 2017

Pick of the Month: **SIEMENS Ltd.**

Reco	**BUY**
Target Price	**Rs1,820**

SIEMENS INDIA: THE BEST BET FOR INDIAN CAPEX CYCLE.

- In the March quarter, we have seen, at Rs47bn, the order inflow nearly doubled. However, with June quarter order inflow of Rs28bn, the interest was doused. Note, SIEM is prone lumpiness in order announcement. Thereby, a delay in quarter or two is not negative. With HVDC orders, the revenues booked were stronger in Energy and Building Technologies segment. This helped SIEM report Rs26bn/Rs2.2bn/Rs1.6bn in Revenue/EBITDA/net profit respectively-ahead of our estimates.
- We think the current capacity utilization is 70% at the best. With 34% gross margin, the operating leverage thesis is compelling. However, there are too many slips between the cup and the lip.
- And with short-cycle book-bill ratio of ~1.2x, and a stronger prospect of order inflows, a robust CAGR in earnings cannot be ruled out.

CMP	1396
Target Price	1820
Upside Potential	30%+
Market Cap (in cr.)	5005
Period (Months)	15-18
Stock P/E	17.42
Book Value (Rs)	184.17
Dividend yield	0.4%
52 Week High/Low (Rs)	1471 / 1011

Investment Thesis:

- **Transmission/Mobility will drive the revenues:** As we have often written in the past that the SIEM product profile is rich. Order inflows were just a matter of time. And with March quarter, with an intake of Rs47 bn (+96% YoY), highest ever, the situations portends a brighter outlook. However, order inflows of June quarter at Rs28bn led to investor disappointment. Note the prospect is intact. Thereby, lumpiness in a quarter or two cannot be ruled out. We estimate SIEM order backlog at Rs126 bn (1.2x FY17 Book Bill).
- **Discretionary orders is just a matter of time:** In the latest disclosures by company, SIEM has admitted that private sector is showing signs of revival. What was the issue in the past? Blame it on the demonetization drive, or blame it on poor reading of tea leaves: the much-needed green-shoots — specifically from Automobiles and fast moving consumer goods — has rescinded back to square one. Yet SIEM has not given up the hopes: first, the cash ban will leave a positive economic impact in the long run; and that, in turn, we feel, will improve the capacity utilization of manufacturing firms. Now the conventional quarters of public sector continues to drive the show. Propulsion, electrification, signaling for railways — is one aspect; metro related mobility is quite another. Adding to that, Solar, HVDC, STATCOM, sets the course for future. Add another raft of orders from Bangladesh to Africa, exports, too, hold a ray of hope.
- **Quarterly margins does not give a decisive trend:** Notorious gyrations in operating profit have been the mainstay of SIEM results. Add IND AS, the rise in cost structure—either due to expected credit loss or MTM forex adjustments the puzzle gets murkier. Thereby, the margins—from a quarterly trend-- will continue to be off tangent. In summation, our initial thesis: a J-curve in earnings with raft of new order continues to exist.
- **Digitization the next big leg:** For SIEM, digital enterprise is aimed at discrete and process industry. Through comprehensive networking, mechanical and electrical & automation design could be integrated. With common shared data model, between production process and manufacturing execution could be manufactured in closed loop. Currently, SIEM is present in Industrial software and automation portfolio, communication, security and services. With inorganic expansion, specifically UGS, LMS and CD-ADAPCO, SIEM extends its bouquet to design, simulation and testing.
- **Even Thermal has a scope of work for Siemens:** Minus the much needed jostle from conventional coal-based power plants, renewable — specifically the solar and wind segment — saves the face. Further, thermal power plants are way below the desired environmental and operational efficiency standards. Thereby, the age-old power plants could spew a barrage of orders. Alas, the chink of light is nowhere to be seen.
- **Smart cities and affordable housing:** Run on a mission mode, each SPV dedicated to smart cities poses two awkward questions: first, the funding; second, the strength of administrative powers. Both remain in unchartered waters. Thereby, despite a robust enquiry pipeline, the plan on paper and the conversion of order does not square the circle. Yet for smart grids and other orders, SIEM remains the undisputed market leader.

Outlook and Valuation

- Including healthcare in base year, we forecast 6.4% CAGR in revenues until FY18 (Sep-Ending). We note competitive intensity and new accounting standards could make smoother earnings volatile. Yet with the base-case pricing power, we forecast net profit to grow 21% CAGR over the next two fiscals. We maintain **BUY**.
- **Risks:** Competition, to our understanding, exists across all segments. Thereby, a detrimental impact on pricing power can erode our assumptions.

Technical Overview: Siemens Ltd.

Source: F7Net

- As depicted on the Monthly chart, the stock rallied from the low of 392.83 to the high of 1509.98 and after that depicted weakness. However, from Fib retracement level of 50%, it resumed positive trend with higher-top higher-bottom swing sequence.
- The stock created kind of "W" pattern on the monthly chart by reverting from 50% fib retracement level which is further supporting the reversal.
- The RSI and the MACD are showing bullish bias on the monthly time frame chart.
- On the Daily time frame chart, the stock is showing rounding pattern and above the breakout level of 1471 strong upside possible.
- The stock is trading above all the important averages i.e. 50DMA (1353.06), 200DMA (1239.82) and 200Week SMA (1061.31).

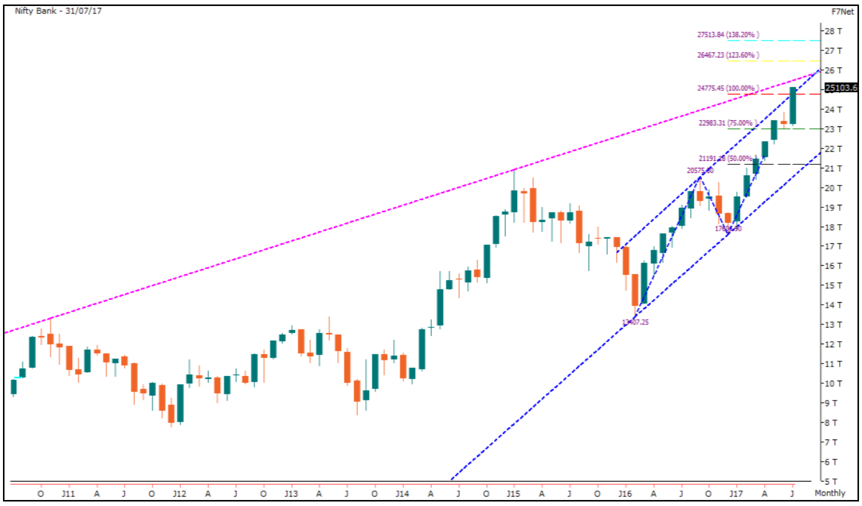
Based on above mentioned technical & fundamental rational, we can build a long position in the stock with 15-18 months perspective and target can be placed at around 1820. We can accumulate the stock in the range of 1350-1410. We believe the stock is having high-performance prospects with long-term perspective so one can hold the stock for a longer time for better returns.

Nifty Bank - Overview

Montly Closing	25103	
Monthly High: 25168	**Monthly Low** : 23144	
Sector Bias:	Neutral to Positive	
Support Level:	24230	22100
Resistance Level:	25900	26470

Sector Outperformers
Yes Bank
Punjab National Bank

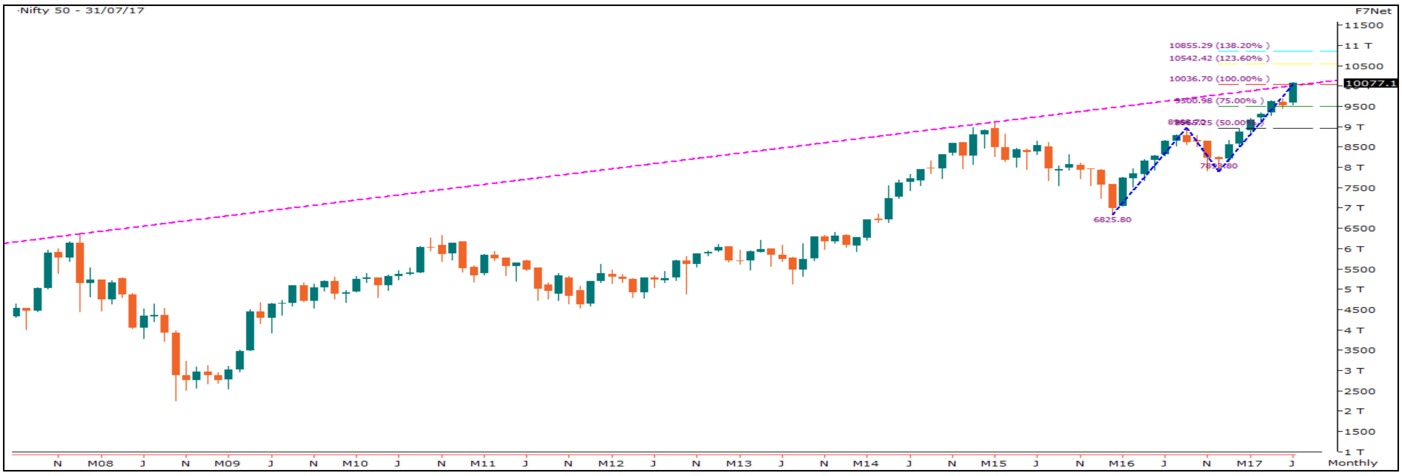
Sector Underperformers
Axis Bank
Bank of Baroda



Source:F7Net

Nifty Bank recorded robust monthly gains of around 8% during the month of July after weak performance of June. Nifty bank witnessed gradual but steady buying during the month. Nifty Bank surpassed the psychological mark of 25000 and hit a fresh all-time high level of 25168 during the month of July. As per the monthly chart pattern, Nifty Bank created strong bullish candle but now it is approaching its rising trend line resistance level. However, the long-term bias on Nifty Bank remains bullish. The rate announcements in upcoming RBI policy review held on 2nd August may give some impact on banking stocks. Any short term correction is the buying opportunity to create positional investments. The overall performance of the banking stock remained robust during the Calendar Year 2017. Some stocks like ICICIBANK, INDUSINDBK, HDFCBANK and SBIN can be accumulated on dips.

Nifty 50 - Overview



Source: F7Net

Nifty Outlook

The stock market is booming. Nifty started the month of July on positive note on account of key domestic triggers i.e. good progress of monsoon, smooth rollout of goods and services tax (GST), JD(U)-BJP alliance in Bihar and on the global front the Federal Reserve's decision to hold off on any increases to the federal funds rate in July. Nifty registered healthy gains of around 5% during the month of July which is highest in last 16 months. Nifty started the month of July on a positive note with gap-up opening and kept on piling gains week over week. It hit a fresh life high of 10114 and closed the month near highest level.

During July Nifty formed a strong positive candle after small negative candle of the previous month. Basically, Nifty took a breather in the month of June and resumed positive momentum in July. On the monthly price chart, the uptrend sequence of higher-top higher-bottom is in place. However, the momentum oscillator Relative Strength Index (RSI) is hovering in the overbought zone and showing lower-high formation. The RSI is not moving in tantem with Nifty which is a factor of caution. Overall, the market is showing bull-run impetus so now the rallies will be faster and bigger than the corrections or dips. The weakness in Nifty can be expected only if it trades below the recent swing low of 9790 levels. Any near-term dip in the market should be considered as buying the opportunity to create long in quality stocks with positional perspective.

Expensive valuations in India are causing concern only in the short term but strong growth potential may overcome this concern. The corporate earnings data, the progression of monsoon, oil price movement, geopolitical concerns are likely to remain key factors to watch out for. The festive season is nearing and likely to give a boost to consumption demand which had depicted some sluggishness post GST rollout. Post transition into this landmark regime the market is likely to rally till 12000 levels by this financial year while our long-term target is 22000-24000 by 2024. Some stocks like ZEEL, BEL, POWERGRID, INFY can be accumulated with long-term view while PHILLIPCAR, GRAVITA and TRIDENT in small & mid cap space are showing good performance prospects.

Nifty Outlook:	
Short-term	Positive
Medium-term	Neutral to Positive
Long-term	Bullish

Monthly Closing		10077
Monthly High		10114
Monthly Low		9543
Monthly Bias:	Positive	
Support Level:	9730	9540
Resistance Level:	10250	10540
Moving Average		
Period		**SMA**
50 Days		9694
200 Days		8944
200 Weeks		8019

Source: F7Net

Event Calendar

Date	Event	Period	Survey	Actual	Prior
01-Aug-17	Nikkei India PMI Mfg	Jul	--	--	50.9
02-Aug-17	RBI Repurchase Rate	Aug-02	6.00%	--	6.25%
02-Aug-17	RBI Reverse Repo Rate	Aug-02	5.75%	--	6.00%
02-Aug-17	RBI Cash Reserve Ratio	Aug-02	4.00%	--	4.00%
03-Aug-17	Nikkei India PMI Services	Jul	--	--	53.1
03-Aug-17	Nikkei India PMI Composite	Jul	--	--	52.7
09-Aug-17	Local Car Sales	Jul	--	--	136895
10-Aug-17	Trade Balance	Jul	--	--	-$12959.9m
10-Aug-17	Exports YoY	Jul	--	--	4.40%
10-Aug-17	Imports YoY	Jul	--	--	19.00%
11-Aug-17	Industrial Production YoY	Jun	--	--	1.70%
13-Aug-17	SEA Total Edible Oil Imports	Jul	--	--	1293.8k
13-Aug-17	SEA Crude Palm Oil Imports	Jul	--	--	572.4k
13-Aug-17	SEA Palm Olein Imports	Jul	--	--	240.7k
13-Aug-17	SEA Edible Crude Palm Kernel Oil Imports	Jul	--	--	7.0k
13-Aug-17	SEA Sunflower Oil Imports	Jul	--	--	169.3k
13-Aug-17	SEA Soybean Oil Degummed Imports	Jul	--	--	290.9k
14-Aug-17	Wholesale Prices YoY	Jul	--	--	0.90%
14-Aug-17	CPI YoY	Jul	--	--	1.54%
25-Aug-17	Eight Infrastructure Industries	Jul	--	--	--
31-Aug-17	Fiscal Deficit INR Crore	Jul	--	--	--
31-Aug-17	GVA YoY	2Q	--	--	5.60%
31-Aug-17	GDP YoY	2Q	--	--	6.10%

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