INSTITUTIONAL RESEARCH

HSIE Results Daily

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- **Siemens:** We maintain REDUCE on Siemens India Ltd. (SIL) and roll forward TP (Rs 1,197) to Sep-22 (35x). The sharp decline in revenues across the businesses is primarily due to (1) 1.5 months of COVID-led shutdown, (2) intermittent local lockdowns, (3) ensuing supply chain disruptions and (4) labour migration issues. With Gas & Power (G&P) business hived off at the parent (Siemens AG) level in the form of Siemens Energy, the latter entity will now hold 24% in SIL. New opportunities in digitalisation are gaining traction as clients cut capex and look towards increasing productivity through automation. SIL is also looking at enhancing capabilities across the EV Infra value chain.

- **KEC International:** We maintain BUY on KEC International Ltd. (KEC) with a revised TP of Rs 334/sh (vs Rs 322/sh earlier, roll forward to Sep-22E) valuing the stock at 12x Sep-22E EPS. 1QFY21 financial performance was a positive surprise on execution and profitability, aided by cost-cutting measures. The bid pipeline is strong at Rs 500-600bn, including Rs 250-300bn of bids which are yet to be opened. Labour availability has improved significantly from 50% (early lockdown) to 80% now, and all the manufacturing facilities are operational. KEC is seeing good traction in Railways, International T&D and Civil segment ordering. Balance sheet net debt-equity is stable at 1.1x. With robust prequalification in domestic/international markets and across sectors, KEC is well-placed for a re-rating.

- **Symphony:** Symphony's 1QFY21 performance was weak but broadly in line with estimates. Domestic revenue saw a 77% YoY decline owing to COVID-led lockdown and high channel inventory (selling in non-seasonal quarters). Domestic EBIT was zero (loss excluding other income) due to negative oplev. Rest of the world (RoW) fared better, as subsidiaries saw the lower impact from lockdowns. However, CT (Australia) and China posted losses. With heavy channel inventory in the domestic business (40% of last year), we expect a weaker show in the coming quarters too. We cut our EPS estimates by 9/3/3% for FY21/FY22/FY23. We value Symphony at 30x P/E on Jun-22E EPS and derive a target price of Rs 810. Maintain REDUCE.

- **Sonata Software:** Sonata posted a weak quarter; the fall in IT services (IITS) revenue (-19.6% QoQ organic) was higher-than-estimated, but margin expansion of 104bps QoQ came as a positive surprise. The impact on IITS was due to an issue in one large travel client (down ~80% QoQ); ex-travel, its revenue was up 1.2% sequentially. Sonata has invested in strengthening the Microsoft relationship, which has yielded positive results (4Y CAGR of 19%). Dynamics D365 related services (34% of revenue) has grown at an eight-quarter CQGR of 7.8%. Furthermore, the margin expansion in IITS was led by a reduction in cost, offshoring and higher IP-Led revenue. The IITS margin will be maintained in the range of 21-22%. DPS growth was strong (+12.2% QoQ), but higher discounts impacted margins. Higher cloud license sales should lead to growth in DPS, but discounts could impact profitability. We like Sonata's IP-led business model, highest margin (IITS) in Tier-2 IT, focus on high growth Microsoft ecosystem, healthy RoE (~38%), and high dividend yield (~5%). We cut our EPS estimate by 2.3/6.2% to factor in the near-term growth challenges and lower DPS margin. The stock is trading at a P/E of 13/11x FY21/22E, in line with the five-year average multiple. We increase our target multiple to 12x (vs. 11x) to arrive at a target price of Rs 320, based on June-22E EPS.

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INSTITUTIONAL RESEARCH

Siemens

Cost rationalisation saves the day

We maintain REDUCE on Siemens India Ltd. (SIL) and roll forward TP (Rs 1,197) to Sep-22 (35x). The sharp decline in revenues across the businesses is primarily due to (1) 1.5 months of COVID-led shutdown, (2) intermittent local lockdowns, (3) ensuing supply chain disruptions and (4) labour migration issues. With Gas & Power (G&P) business hived off at the parent (Siemens AG) level in the form of Siemens Energy, the latter entity will now hold 24% in SIL. New opportunities in digitalisation are gaining traction as clients cut capex and look towards increasing productivity through automation. SIL is also looking at enhancing capabilities across the EV Infra value chain.

- **Weak financial performance:** SIL delivered a revenue miss of 23% (Rs 13.2bn, -59%/-53% YoY/QoQ). EBITDA margin came at (0.7)%. SIL has quantified the impact of 1.5 months shutdown in terms of Rs 2.3bn additional expenses incurred due to: (1) under-recovery of fixed costs, (2) increased costs of installation due to supply chain disruptions and (3) additional spending on higher health & hygiene standards. On the positive side, the rationalisation of operating and employee expenses led to EBITDA/APAT beat of Rs 684/671mn, reported at Rs -96/-46mn. Order backlog stood at Rs 131bn, which provides visibility of over a year.
- **Navigating through COVID-19 crisis:** 10/22 factories and a warehouse are located in Maharasthra, which is one of the worst affected states. As on date, all factories and ~75% of project sites have reopened and are at utilisation levels of between 20% to 70%, with ~60% migrant workers in place. Remote commissioning, servicing and factory acceptance tests have allowed the company to steer through the crisis. Cash conservation, receivables realisation and cost rationalisation continue to be prime focus areas.
- **Industry outlook:** 3QFY20 order wins include: (1) Rs 1.8bn orders for 900 CBs to a utility in South Africa, (2) GIS of Rs 1.5bn to Bangladesh, and (3) Propulsion systems to Kochi Metro. While private capex has come to a standstill, green shoots in terms of orders are emerging in industries – water, pharma, fertilisers, chemicals, F&B, etc. Short cycle order is, in particular, impacted by poor-offtake by the auto industry and logistics issues. While tendering in Railways/Metros across segments like Electrification, Signaling, Rolling Stock, etc., is encouraging with a long pipeline, competition is high. SIL is betting on cement and steel recovery too.

Financial Summary

(Rs mn, Sep YE)	3Q FY20	3Q FY19	YoY (%)	2Q FY20	QoQ (%)	FY19	FY20E	FY21E	FY22E
Net Revenues	13,195	31,984	(58.7)	28,201	(53.2)	1,36,838	86,082	1,29,920	1,42,140
EBITDA	(96)	3,537	(102.7)	2,336	(104.1)	14,757	6,505	13,046	15,163
APAT	(46)	2,481	(101.9)	1,721	(102.7)	11,520	5,014	9,886	11,743
Diluted EPS (Rs)	(0.1)	7.0	(101.9)	4.8	(102.7)	32.4	14.1	27.8	33.0
P/E (x)						35.8	82.3	41.7	35.1
EV / EBITDA (x)						24.7	56.4	28.3	23.9
RoE (%)						13.3	5.6	11.0	12.2

Source: Company, HSIE Research

Change in Estimates

Standalone (Rs Mn)	FY20E			FY21E			FY22E		
	Old	Revised	% Chg	Old	Revised	% Chg	Old	Revised	% Chg
Net Sales	1,08,610	86,082	*(20.7)*	1,29,920	1,29,920	-	1,42,140	1,42,140	-
EBITDA	9,645	6,505	*(32.6)*	13,046	13,046	-	15,163	15,163	-
EBIDTA Margin (%)	8.9	7.6	*(132bps)*	10.0	10.0	-	10.7	10.7	-
Adj PAT	7,400	5,014	*(32.3)*	9,886	9,886	-	11,743	11,743	-

Source: Company, HSIE Research

REDUCE

CMP *(as on 11 Aug 2020)*	Rs 1,157
Target Price	Rs 1,197
NIFTY	11,323

KEY CHANGES	OLD	NEW	
Rating	REDUCE	REDUCE	
Price Target	Rs 1,104	Rs 1,197	
EPS Change %	FY20E	FY21E	FY22E
	-32.3	-	-

KEY STOCK DATA	
Bloomberg code	SIEM IN
No. of Shares (mn)	356
MCap (Rs bn) / ($ mn)	412/5,524
6m avg traded value (Rs mn)	2,943
52 Week high / low	Rs1,717/947

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	12.4	(22.5)	(0.7)
Relative (%)	(9.3)	(15.7)	(2.9)

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	75.00	75.00
FIs & Local MFs	10.20	10.13
FIIs	4.21	4.16
Public & Others	10.59	10.71
Pledged Shares	0.0	0.0

Source : BSE

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KEC International

Robust performance

BUY

CMP*(as on 11 Aug 2020)*	Rs 292
Target Price	Rs 334
NIFTY	11,323

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 322	Rs 334
	FY21E	FY22E
EPS %	-	-

KEY STOCK DATA	
Bloomberg code	KECI IN
No. of Shares (mn)	257
MCap (Rs bn) / ($ mn)	75/1,007
6m avg traded value (Rs mn)	116
52 Week high / low	Rs 359/154

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	47.6	(14.8)	0.0
Relative (%)	26.0	(8.0)	(2.2)

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	51.66	51.66
FIs & Local MFs	27.46	27.18
FPIs	8.70	8.70
Public & Others	12.18	12.46
Pledged Shares	-	-

Source : BSE

<u>We maintain BUY on KEC International Ltd. (KEC) with a revised TP of Rs 334/sh (vs Rs 322/sh earlier, roll forward to Sep-22E) valuing the stock at 12x Sep-22E EPS.</u> 1QFY21 financial performance was a positive surprise on execution and profitability, aided by cost-cutting measures. The bid pipeline is strong at Rs 500-600bn, including Rs 250-300bn of bids which are yet to be opened. Labour availability has improved significantly from 50% (early lockdown) to 80% now, and all the manufacturing facilities are operational. KEC is seeing good traction in Railways, International T&D and Civil segment ordering. Balance sheet net debt-equity is stable at 1.1x. With robust prequalification in domestic/international markets and across sectors, KEC is well-placed for a re-rating.

- **Better-than-expected financial performance:** Revenue: Rs 22bn (-8.5/39.9% YoY/QoQ, 4.7% beat). De-growth due to COVID disruption. While Railways (Rs 5.2bn, 0% YoY) & Metro (Rs 1bn, 58% YoY) projects execution was strong albeit on a lower base, the largest segment of T&D with 64% share (Rs 14.5bn, -9% YoY) saw de-growth along expected lines. Cables revenue also came in lower at Rs 1.6bn (-40% YoY). EBITDA: Rs 1.95bn (-22.5/-47.4% YoY/QoQ, 2.3% beat). Margins were down 159/127bps YoY/QoQ at 8.8% (vs est. of 9%) owing to negative oplev. Consequently, RPAT/APAT came in at Rs 708mn (-20%/-63%) YoY/QoQ, 12% beat).
- **Order inflow stable, tender pipeline strong, postponement leading to slower conversion:** FYTD21 order inflow stood at Rs 19.3bn, primarily driven by international T&D. A robust order book of Rs 197bn + L1 pipeline of Rs 48bn. KEC is seeing a robust bid pipeline with Rs 250-300bn of bids submitted yet to be opened and Rs 250-300bn of bid submission due over the next two months.
- **Labour availability has improved, normalcy to return from 3QFY21:** While labour availability was a key challenge (15k labours at site vs 30k) during early stages of lockdown, KEC has since than ramped up and has labour levels of 80% now. All manufacturing facilities are operational, and execution has ramped up across all sites. Most international sites' execution is at pre-COVID levels, barring SAE, which has been impacted due to COVID-19 spikes in cases. KEC also booked some idling costs in 1QFY21 on account of same.
- **Balance sheet stable, marginal deterioration in NWC due to lower creditors:** Net debt is stable at Rs 33bn, at similar levels QoQ (1.1x net D/E). NWC deteriorated to 139 days vs 119 days QoQ, mostly on account of lower utilisation of acceptances/creditors. The quarter also witnessed a continuation of the trend of reduction in interest cost on account of higher low cost foreign debt (60%) in the borrowing mix as a result of robust execution in the international markets.

Financial summary

Y/E Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Revenues	22,068	24,125	(8.5)	36,710	(39.9)	119,654	124,092	137,047	151,403
EBITDA	1,949	2,513	(22.5)	3,707	(47.4)	12,344	12,417	13,992	15,479
APAT	708	886	(20.1)	1,929	(63.3)	5,655	5,613	6,639	7,666
Diluted EPS (Rs)	2.8	3.4	(20.1)	7.5	(63.3)	22.0	21.8	25.8	29.8
P/E (x)						13.3	13.4	11.3	9.8
EV/EBITDA (x)						8.6	8.3	7.2	6.5
RoE (%)						21.6	18.1	18.0	17.7

Source: Company, HSIE Research

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Symphony

Trade inventory to impact FY21

Symphony's 1QFY21 performance was weak but broadly in line with estimates. Domestic revenue saw a 77% YoY decline owing to COVID-led lockdown and high channel inventory (selling in non-seasonal quarters). Domestic EBIT was zero (loss excluding other income) due to negative oplev. Rest of the world (RoW) fared better, as subsidiaries saw the lower impact from lockdowns. However, CT (Australia) and China posted losses. With heavy channel inventory in the domestic business (40% of last year), we expect a weaker show in the coming quarters too. We cut our EPS estimates by 9/3/3% for FY21/FY22/FY23. We value Symphony at 30x P/E on Jun-22E EPS and derive a target price of Rs 810. Maintain REDUCE.

- **Weak but in-line revenue:** Standalone revenue declined 75% YoY (+103% in 1QFY20 and +12% in 4QFY20), in line with our expectation. Domestic/Exports fell 77/50% YoY. RoW revenue declined by 17% YoY as subsidiaries saw a lower impact from lockdown. IMPCO was relatively unaffected up to May, after which revenue fell sharply. CT saw healthy demand for heaters and strong traction in the US. GSK China saw a marginal decline. While we remain confident about the long-term growth potential of branded air coolers in India and overseas, along with Symphony's ability to gain market share, near term pressure will continue.
- **A loss at EBITDA:** Standalone gross margin dipped by 500bps YoY to 45% (-443bps in 1QFY20 and +729bps in 4QFY20) due to a high salience of spares sales, which have lower margins. Gross margin for air coolers was >50%, in line with 1QFY20. Employee expenses remained flat while ASP/other expenses declined by 79/53% YoY. Symphony recorded a loss in standalone EBITDA of Rs 80mn (HSIE Rs 27mn loss). RoW saw an EBIT loss of Rs 20mn due to high input cost, increased labour cost, and increased freight.
- **Call takeaways:** (1) Channel inventory in India is at 40% of FY20 sales (similar to FY19); (2) inventory with Symphony stands at Rs 340mn; (3) gross margin for air coolers in FY21 is expected to remain stable YoY; (4) the US market is expected to grow to 50% of CT in 3-4 years (currently 15%); and (5) the company intends to maintain a dividend payout of 50%.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY20	FY21E	FY22E	FY23E
Net Sales	400	1,600	*(75.0)*	1,540	*(74.0)*	11,030	8,189	10,415	11,613
EBITDA	(80)	240	*(133.3)*	490	*(116.3)*	2,120	1,425	2,124	2,435
APAT	10	260	*(96.2)*	464	*(97.8)*	1,820	1,209	1,788	2,145
Diluted EPS (Rs)	0.1	3.7	*(96.2)*	6.6	*(97.8)*	26.0	17.3	25.5	30.6
P/E (x)						32.6	49.1	33.2	27.7
EV / EBITDA (x)						26.8	39.7	26.4	22.8
RoCE (%)						42.2	23.3	37.2	44.2

Change in Estimates

	FY21E			FY22E			FY23E		
	Old	New	*Chg (%)*	Old	New	*Chg (%)*	Old	New	*Chg (%)*
Sales	8,690	8,189	*(5.8)*	10,615	10,415	*(1.9)*	11,786	11,613	*(1.5)*
EBITDA	1,566	1,425	*(9.0)*	2,198	2,124	*(3.3)*	2,500	2,435	*(2.6)*
APAT	1,327	1,209	*(8.9)*	1,843	1,788	*(3.0)*	2,202	2,145	*(2.6)*
EPS	19.0	17.3	*(8.9)*	26.3	25.5	*(3.0)*	31.5	30.6	*(2.6)*

Source: Company, HSIE Research

REDUCE

CMP *(as on 11 Aug 2020)*	**Rs 840**
Target Price	**Rs 810**
NIFTY	**11,323**

KEY CHANGES	**OLD**	**NEW**
Rating	REDUCE	REDUCE
Price Target	Rs 828	Rs 810
EPS %	FY21E	FY22E
	-9%	-3%

KEY STOCK DATA	
Bloomberg code	SYML IN
No. of Shares (mn)	70
MCap (Rs bn) / ($ mn)	59/787
6m avg traded value (Rs mn)	53
52 Week high / low	Rs 1,405/690

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	1.4	(35.3)	(31.2)
Relative (%)	(20.3)	(28.5)	(33.4)

SHAREHOLDING PATTERN (%)	**Mar-20**	**June-20**
Promoters	75.00	75.00
FIs & Local MFs	10.19	10.14
FPIs	5.28	4.86
Public & Others	9.53	10.00
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Sonata Software

On the path to recovery

Sonata posted a weak quarter; the fall in IT services (IITS) revenue (-19.6% QoQ organic) was higher-than-estimated, but margin expansion of 104bps QoQ came as a positive surprise. The impact on IITS was due to an issue in one large travel client (down ~80% QoQ); ex-travel, its revenue was up 1.2% sequentially. Sonata has invested in strengthening the Microsoft relationship, which has yielded positive results (4Y CAGR of 19%). Dynamics D365 related services (34% of revenue) has grown at an eight-quarter CQGR of 7.8%. Furthermore, the margin expansion in IITS was led by a reduction in cost, offshoring and higher IP-Led revenue. The IITS margin will be maintained in the range of 21-22%. DPS growth was strong (+12.2% QoQ), but higher discounts impacted margins. Higher cloud license sales should lead to growth in DPS, but discounts could impact profitability. We like Sonata's IP-led business model, highest margin (IITS) in Tier-2 IT, focus on high growth Microsoft ecosystem, healthy RoE (~38%), and high dividend yield (~5%). We cut our EPS estimate by 2.3/6.2% to factor in the near-term growth challenges and lower DPS margin. The stock is trading at a P/E of 13/11x FY21/22E, in line with the five-year average multiple. We increase our target multiple to 12x (vs. 11x) to arrive at a target price of Rs 320, based on June-22E EPS.

- **1QFY21 highlights**: IITS revenue declined 17.8% QoQ to USD 36.5mn vs. estimate of USD 38mn. The decline was led by travel (-85% QoQ) and non-essential retail (-17.8% QoQ) verticals. The recovery in travel will be gradual and will reach ~50% of 4QFY20 level by 4QFY21. IP-led revenue was up 5.5% QoQ and supported margins. Consolidated revenue was up 2.6% QoQ, and EBITDA margin stood at 8.2% (vs. the estimate of 8.3%). Microsoft (SI + Product Engineering + AX up-gradation) is ~60% of IITS revenue.
- We expect IITS revenue to recover from 2QFY21; IITS growth ex-TUI for 2/3/4Q is expected to be 0.4/1.7/1.8% QoQ. IITS margin is expected to be at 21.1/21.4% for FY21/22E.

Quarterly financial summary

YE March (Rs Bn)	1Q FY21	1Q FY20	*YoY (%)*	4Q FY20	*QoQ (%)*	FY19	FY20	FY21E	FY22E	FY23E
IITS USD Revenue	36.5	44.3	*-17.7*	44.4	*-17.8*	161	181	153	171	186
Net Sales	9.52	8.75	*8.9*	9.29	*2.6*	29.61	37.43	37.39	41.41	45.37
EBIT	0.68	0.81	*-15.9*	0.74	*-8.0*	3.23	3.36	2.80	3.28	3.65
APAT	0.50	0.67	*-25.5*	0.74	*-33.0*	2.47	2.77	2.27	2.68	2.99
Diluted EPS (Rs)	4.8	6.5	*-25.5*	7.2	*-33.0*	23.7	26.7	21.8	25.7	28.7
P/E (x)						11.9	10.6	13.0	11.0	9.8
EV / EBITDA (x)						8.3	7.5	8.5	7.1	6.2
RoE (%)						34.7	38.5	31.9	33.5	33.3

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	*Change %*	FY22E Old	FY22E Revised	*Change %*
Revenue (USD mn)	159	153	*-3.6*	175	171	*-2.2*
Revenue	36.9	37.4	*1.4*	40.7	41.4	*1.9*
EBIT	2.9	2.8	*-2.5*	3.5	3.3	*-6.8*
EBIT margin (%)	7.8	7.5	*-30bps*	8.7	7.9	*-73bps*
APAT	2.3	2.3	*-2.3*	2.9	2.7	*-6.2*
EPS (Rs)	22.3	21.8	*-2.3*	27.5	25.7	*-6.2*

Source: Company, HSIE Research

BUY

CMP *(as on 11 Aug 2020)*	**Rs 283**
Target Price	**Rs 320**
NIFTY	**11,323**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	Rs 300	Rs 320
EPS %	FY21E	FY22E
	-2.3	-6.2

KEY STOCK DATA	
Bloomberg code	SSOF IN
No. of Shares (mn)	105
MCap (Rs bn) / ($ mn)	30/399
6m avg traded value (Rs mn)	99
52 Week high / low	Rs 355/147

STOCK PERFORMANCE (%)

	3M	**6M**	**12M**
Absolute (%)	36.4	(15.6)	(16.3)
Relative (%)	14.7	(8.8)	(18.5)

SHAREHOLDING PATTERN (%)

	Mar-20	**Jun-20**
Promoters	28.17	28.17
FIs & Local MFs	13.32	12.93
FPIs	11.66	10.37
Public & Others	46.85	48.53
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Parikshit Kandpal	Siemens, KEC International	CFA	NO
Rohan Rustagi	Siemens, KEC International	MBA	NO
Chintan Parikh	Siemens, KEC International	MBA	NO
Naveen Trivedi	Symphony	MBA	NO
Aditya Sane	Symphony	CA	NO
Amit Chandra	Sonata Software	MBA	NO
Apurva Prasad	Sonata Software	MBA	NO
Vinesh Vala	Sonata Software	MBA	NO

Disclosure:
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