Stock Note
Schneider Electric Infrastructure Ltd.

December 11, 2023

RETAILRESEARCH

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Schneider Electric Infrastructure Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Heavy Electrical Equipment	Rs.371.35	**Buy in the band of Rs.365 - 375 & add more on dips to Rs. 330**	**404.75**	**440**	**3-4 quarters**

HDFC Scrip Code	SCHELEEQNR
BSE Code	534139
NSE Code	SCHNEIDER
Bloomberg	SCHN:IN
CMP December 08 - 2023	371.35
Equity Capital (Rs cr)	47.8
Face Value (Rs)	2
Equity Share O/S (cr)	23.9
Market Cap (Rs cr)	8,879
Book Value (Rs)	6.2
Avg. 52 Wk Volumes	9,98,752
52 Week High	397
52 Week Low	138

Share holding Pattern % (Sept, 2023)	
Promoters	75.00
Institutions	3.61
Non Institutions	21.39
Total	100.0

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst
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Our Take:

Schneider Electric Infrastructure Limited, incorporated in 2011, is engaged in the business of manufacturing, designing, building and servicing technologically advanced products and systems for the electricity network. The company offers distribution, medium power, and special transformers; substation automation systems, including power management systems, controllers and RTUs, communication elements, graphic user interfaces, engineering tools, SCADA and EMS gateways, and simulation tools; and ring main units. Schneider also provides medium voltage distribution and grid automation products.

The company is currently expanding its capacities in its Calcutta Plant with an additional investment of around Rs.140 crores which is expected to complete in three-four quarters. The capex will provide an additional export opportunity in the upcoming years.

With the company's Eco-structure platform witnessing strong momentum across the industry and increasing focus on service oriented segment, we expect stable margin trajectory and overall revenue growth as well.

The company has witnessed an improvement in its margin levels, order inflow and visibility levels, on account of Operational efficiencies, Better raw material pricing and better industry prospects.

With several reforms being introduced in the Power & Grid sector, we expect company to remain benefit out of order flows and robust execution. This, along with the focus on renewable energy, privatisation, and efforts to cut losses in the T&D sector, are favourable indicators for the company. Transportation segment is also gaining traction with more bullet train orders and Vande Bharat orders and also Into the Mining and metal space the increase in capex from Cement and Steel will also drive demand.

Valuation & Recommendation:

On the strong long term outlook and revenue growth in the upcoming years. We expect revenue/EBITDA/PAT to grow at a CAGR of 15%/37.3%/39.3% over FY23–25E. **We think the base case fair value of the stock is Rs. 404.75 (46x FY25E EPS) and the bull case fair value is Rs.440 (50x FY25E EPS) over the next three-four quarters. Investors can buy the stock in the band of Rs.365-375 (42.2x FY25E EPS) and add more on dips to Rs. 330 (37.5x FY25E EPS).**

Financial Summary (Rs Cr)

Particulars (Rs cr)	Q2FY24	Q2FY23	YoY-%	Q1FY24	QoQ-%	FY21	FY22	FY23	FY24E	FY25E
Total Operating Income	495.8	420.8	17.8	495.3	0.1	1,297.1	1,530.3	1,777.2	2,061.5	2,350.2
EBITDA	62.6	18.9	232.1	49.5	26.6	63.8	86.1	167.7	256.6	316.2
Depreciation	5.7	4.0	42.6	5.1	11.8	22.1	17.3	18.5	22.2	26.7
Other Income	1.7	5.1	-65.9	2.3	-25.9	18.5	9.9	12.2	17.5	22.4
Interest Cost	12.4	14.5	-14.3	11.8	5.2	48.2	48.5	53.0	58.3	55.4
Tax	0.0	0.0	-	0.0	-	0.0	0.0	0.0	34.8	46.2
PAT	42.9	8.7	390.4	34.9	22.7	12.0	30.2	108.3	158.7	210.3
Adjusted PAT	42.9	8.7	390.4	34.9	22.7	-1.0	27.6	123.6	158.7	210.3
EPS (Rs)	1.8	0.4	390.4	1.5	22.7	0.0	1.2	5.2	6.6	8.8
P/E (x)						-	321.4	95.4	56.0	42.2

(Source: Company, HDFC sec)

Q2 FY24 Earnings Update:

- The company posted robust quarterly performance in quarter ending September, both in terms of revenue growth and maintaining stable operating margins.
- Revenue during the quarter stood at Rs.495.8 crores, up 17.8%, flat% (YoY/QoQ).
- Revenue mix during the quarter: 13% from the Services business, 23% from Transactional Services and 64% in the system in which equipment business is 33%. Projects segment comprised approximately 12% in the total system business and 19% IG revenues.
- Gross Margin during the quarter improved by 610 bps YoY, stood at Rs.36.0%, while the EBITDA margins stood at 12.6%, improving by 810 bps YoY. This was primarily on account of raw material cost normalization & better mix of the portfolio.
- EBITDA for the quarter stood at Rs.62.63 crores Vs 18.86 crores YoY.
- Net Profit for the quarter stood at Rs.42.86 crores, and quarterly EPS stood at Rs.1.79.
- The pending order backlog at the end of Sept 2023 was about Rs. 1,215 crores Vs Rs.1,120 crores in June 2023.
- Order book mix was: Systems/transaction/services being 66%/17%/17% respectively.

H1 FY24 Con-Call Key Takeaways:

- Sector Outlook & Opportunities: There has been continued interest from the government in investing in modernizing the grid. The transportation and railways sector has continued to witness more tailwinds from government push towards modernization of railways and Vande bharat. The cloud & services segment which is primarily a data center market continues to be strong with more investments coming on smaller data centers which are the Edge data centers along with the co-located large hyperscalers as well.
- The Eco-structure is a platform provided by the Parent company and SEIL doesn't pay anything in consideration to the Parent.
- Software services are going to provide stickiness between company and customer and also pull more product sales; company is equally focusing on both software and product division.
- Order book mix was: Systems/transaction/services being 66%/17%/17% respectively.
- The current utilization is at 60-70% and the company is operating currently on dual shifts but can further expand to three shifts.
- The capex on the Calcutta plant is underway and the can be concluded in coming 2-3 quarters; the total capex the company is anticipating is around Rs.140 crores. The company is expecting a rise in its export business with its new factory. The company has spent an amount of Rs.23 crores in H1 and is on track to complete the desired capex on time.
- Currently, the company is not directly involved in the smart metering business; it is currently engaged in providing the back-end integration at Grid level. The company anticipates more opportunities to flow from the AMI (Advanced Metering Infrastructure) segment. The company can take the end-to-end orders on project basis which involves smart metering.
- The global logistics and supply chain is stabilizing and chip shortage is gradually coming to an end.
- The mix is moving more towards the high-margin business of transaction and services.
- Export Sales during the quarter stood at Rs.90 crores
- The company is witnessing 2-3 opportunities on the railway side and urban transportation, products such as air insulated switchgears; gas insulated switchgears; and a little bit on the transformer and SCADA side.
- The management has refrained to provide any guidance with respect to revenue and margins.

Key Drivers:

Strong growth momentum expected in the Eco-Structure Transformer Expert Platform:

Eco-structure is company's interoperable IoT enabled system architecture and platform in Buildings, Data centers and Industries from connected products to Edge control and providing Data Analytics. It is a platform provided with the support of its parent, it is the patented license software which provides the diagnostic tool for the entire health of the transformer on both predictive and preventive side. SEIL has been receiving breakthrough orders across its Eco structure platform that provides a good diagnostic tool for the industry and will reduce the losses occurring due to the unplanned downtime. Initiatives like this substantiates the fact that company also remains focused on its service business and providing native connectivity to bridge Capex & Opex to unlock recurring service business in the long run. The Eco-structure presently comprises approximately 11% of sales in the current quarter. The management is aiming to increase mix going forward that could lead to higher margins going forward.

Emerging AMI opportunity:

SEIL, the listed entity is not directly involved in providing of the AMI and smart metering installation or manufacturing but is actually involved into back end integration at the grid level, there will be a pull through effect of heading systems, and will increase the demand of the software related to AMI. The company currently is not tying up with any of the AMI providers and is eyeing more opportunities as it has long term relationship with most of the leading players.

Upcoming Capacity expansion and Strong growth opportunities in the Traditional Sectors:

The company is currently undertaking Capex at its Calcutta facility for total amount of approximately Rs.140 crores which is expected to commence in upcoming three quarters. There has been a good traction witnessed from the RDSS (Revamped Distributor Sector Scheme) launched by the Government of India, and around Rs.3 lakh crores has been outlaid by the government and company has also been providing products and solutions in these areas. Also, there has been more opportunities in areas of mining material, mobility and data centres.

Strong Industry support and Outlook: The power and grid sector Scheme has an outlay of 2.5 Lac Cr over next 4 years, focusing on Smart metering & Discom reform opportunities. In the semi-conductor space, the MNCs have proposed to invest Rs.60,000 crores over next 4 years. Under the Transportation & E mobility space, Rs,40,000 Cr investments likely in EV battery plants in next 4 years.

Key Risks:

- Slowdown in the Capex trend and private investment can hamper the demand for company’s products.
- Challenges in the Global supply chain and freight cost and pricing of the raw material can impact the Gross margins and EBITDA.
- Unstable pricing in the order-book and unstable margin trajectory in past can impact in adverse market situations.
- Slowdown in spend by the Govt in power sector reforms can impact the visibility of revenue growth.

Company Background:

Schneider Electric (SEIL) is engaged in design, manufacture, build, and servicing of products and systems for electricity distribution in India and internationally. The company has 4 manufacturing facilities at 3 locations: Vadodara (2 units), Kolkata (1 unit) and Chennai (1 unit).The company offers distribution, medium power, and special transformers; substation automation systems, including power management systems, controllers and RTUs, communication elements, graphic user interfaces, engineering tools, SCADA and EMS gateways, and simulation tools; and ring main units. Schneider is also provides medium voltage distribution and grid automation products, such as Easergy T300, a remote terminal unit; EasyPact EXE, a vacuum circuit breaker; medium voltage switchgear; microgrids; digital substations; and Ecofit, a medium and low voltage equipment, as well as EcoStruxure grid, an IoT-enabled open and interoperable platform.

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Income-Statement

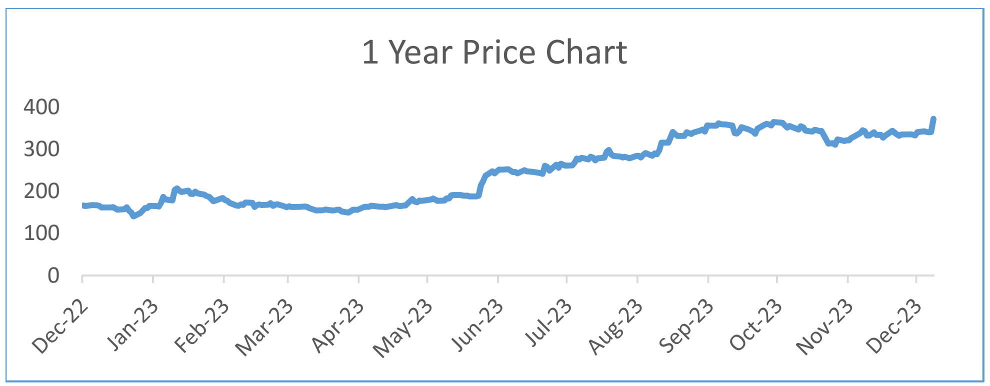
(Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
Net Revenues	**1297.1**	**1530.3**	**1777.2**	**2061.5**	**2350.2**
Growth (%)	-6.3	18.0	16.1	16.0	14.0
Operating Expenses	1233.4	1444.3	1609.5	1805.0	2034.0
EBITDA	**63.8**	**86.1**	**167.7**	**256.6**	**316.2**
Growth (%)	**136.6**	**35.0**	**94.8**	**53.0**	**23.2**
EBITDA Margin (%)	**4.9**	**5.6**	**9.4**	**12.4**	**13.5**
Depreciation	22.1	17.3	18.5	22.2	26.7
EBIT	**41.7**	**68.8**	**149.2**	**234.3**	**289.5**
Other Income	18.5	9.9	12.2	17.5	22.4
Interest expenses	48.2	48.5	53.0	58.3	55.4
PBT	**12.0**	**30.2**	**108.3**	**193.5**	**256.5**
Tax	0.0	0.0	0.0	34.8	46.2
PAT	12.0	30.2	108.3	158.7	210.3
Adjusted PAT	**-1.0**	**27.6**	**123.6**	**158.7**	**210.3**
EPS	0.0	1.2	5.2	6.6	8.8

Balance-Sheet

As at March	FY21	FY22	FY23	FY24E	FY25E
SOURCE OF FUNDS					
Share Capital	48	48	48	48	48
Reserves	-44	-12	103	226	389
Shareholders' Funds	**4**	**36**	**151**	**274**	**436**
Long Term Debt	377	394	397	437	393
Net Deferred Taxes	0	0	0	0	0
Long Term Provisions & Others	30	28	37	38	39
Total Source of Funds	**411**	**457**	**585**	**748**	**868**
APPLICATION OF FUNDS					
Net Block & Goodwill	300	309	320	298	361
CWIP	8	5	14	95	26
Other Non-Current Assets	79	76	82	90	99
Total Non Current Assets	**386**	**389**	**416**	**483**	**486**
Current Investments	0	0	0	0	0
Inventories	220	226	297	339	386
Trade Receivables	426	443	546	678	773
Cash & Equivalents	23	36	20	67	142
Other Current Assets	93	76	76	84	92
Total Current Assets	**763**	**781**	**939**	**1168**	**1393**
Short-Term Borrowings	161	105	70	84	92
Trade Payables	428	459	540	650	740
Other Current Liab & Provisions	150	148	160	169	179
Total Current Liabilities	**738**	**712**	**770**	**902**	**1012**
Net Current Assets	25	68	169	265	382
Total Application of Funds	**411**	**457**	**585**	**748**	**868**

Cash Flow Statement

(Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
Reported PBT	-1.0	27.6	123.6	193.5	256.5
Non-operating & EO items	18.0	4.2	-9.1	0.0	0.0
Interest Expenses	46.3	45.9	50.5	58.3	55.4
Depreciation	22.1	17.3	18.5	22.2	26.7
Working Capital Change	-76.5	27.4	-85.6	-70.1	-58.0
Tax Paid	-1.2	-2.0	-3.4	-34.8	-46.2
OPERATING CASH FLOW (a)	**7.6**	**120.4**	**94.6**	**169.1**	**234.4**
Capex	-9.7	-25.4	-37.7	-81.0	-21.0
Free Cash Flow	-2.0	95.0	56.9	88.1	213.4
Investments	0.0	0.0	0.0	0.0	0.0
Non-operating income	0.2	0.1	0.1	0.0	0.0
INVESTING CASH FLOW (b)	**-9.4**	**-25.3**	**-37.6**	**-81.0**	**-21.0**
Debt Issuance / (Repaid)	42.1	-52.1	-30.2	53.7	-35.3
Interest Expenses	-28.9	-26.8	-37.2	-58.3	-55.4
FCFE	11.1	16.1	-10.4	83.5	122.7
Share Capital Issuance/ (Buy Back)	0.0	0.0	0.0	0.0	0.0
Dividend	0.0	0.0	0.0	-35.9	-47.8
Others	-1.7	-3.1	-6.2	0.0	0.0
FINANCING CASH FLOW (c)	**11.5**	**-81.9**	**-73.5**	**-40.5**	**-138.5**
NET CASH FLOW (a+b+c)	**9.6**	**13.1**	**-16.5**	**47.6**	**74.9**



Key-Ratios

	FY21	FY22	FY23	FY24E	FY25E
PROFITABILITY RATIOS					
EBITDA Margin	4.9	5.6	9.4	12.4	13.5
EBIT Margin	3.2	4.5	8.4	11.4	12.3
PAT Margin	1.9	2.1	5.2	7.7	8.9
RoCE	8.2	12.8	25.9	33.2	33.7
SOLVENCY RATIOS					
Debt/EBITDA (x)	8.4	5.8	2.8	2.0	1.5
D/E	152.0	13.8	3.1	1.9	1.1
PER SHARE DATA					
EPS	0.0	1.2	3.9	6.6	8.8
CEPS	0.9	1.9	5.9	7.6	9.9
Dividend	0.0	0.0	0.0	1.5	2.0
BVPS	0.1	1.5	6.3	11.5	18.2
TURNOVER RATIOS					
Debtor days	119	104	102	108	113
Inventory days	62	53	54	56	56
Creditors days	123	106	103	105	108
VALUATION					
P/E	-	321.4	95.4	56.0	42.2
P/BV	-	245.8	58.8	32.4	20.3

JINESH DHAVAL KOTHARI

Digitally signed by JINESH DHAVAL KOTHARI
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HDFC Sec Retail Research Rating description

Green Rating stocks
This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks
This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks
This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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