Schneider Electric Infrastructure Limited — INR 142

Schneider is "ON" — BUY

Target Price (INR): 200
Potential Upside: 41%

Schneider Electric Infrastructure Ltd (SEIL) incorporated on March 12, 2011 is engaged in providing power equipment solutions. Company's solutions are used by electrical distribution (utilities) and power generation companies along with electro-intensive industry, particularly, oil & gas. Over the last five years, Company has recorded muted revenue growth (0.8% CAGR) on account of structural issues in the industry. Despite facing perils, SEIL has sailed through tough times by providing solutions supported by its parent. SEIL's core business includes: Systems (69% of FY16 revenue), Transactional Business (26% of FY16 revenues) and Services (4.8% of FY16 revenue). SEIL stands poised to benefit from the on-going power sector reforms, counter challenges as India's power sector set to witness light of the day and the resultant improved demand.

Government initiatives to aid order inflows: In order to boost the power sector, the Government has taken several initiatives like **Ujawal Discom Assurance Yojana (UDAY), Integrated Power Development Scheme (IPDS) and Deen Dayal Upadhyaya Scheme**. The Government's vision to generate two trillion units (kilowatt hours) of energy by 2019 to provide **24x7 electricity** to all classes and masses, opens up immense opportunities across sectors for power and power equipment companies. Concurrently, substantial investment by Government to the tune of INR 3,200 Bn should result in fresh inflow of funds thereby leading to healthy orders across the value chain. We expect these measures should bring back glory in power and power equipment industry, propelling order books of companies and particularly SEIL. Going forward, we believe these orders should result in healthy revenue growth of 12% CAGR by FY19E at INR 19,710 Mn from 14,026 Mn of FY16.

Focus on high margin services to improve profitability: SEIL's in the past has compromised on profitability for greater order wins leading to muted bottom-line growth. Company's system business contributes 60% of FY16 Revenues and earns lowest EBITDA margin (~5%), impacting the overall profitability. Going forward, SEIL is shifting its focus towards Transactional business (26% of FY16 Revenues), which enjoys better EBITDA margin (~10%) and Service business (14% of FY16 Revenues), enjoying (~15% margin). Over the past few quarters (Q4FY16 to Q2 FY17), company has recorded ~20% plus revenue growth in Transactional & Service driving the profitability from 3.2% in Q2 FY16 to 3.7% in Q2FY17. We believe this business is expected to continue on economic upturn driving profitability. We expect these changes of focusing on innovative solutions fetching high margin business should translate into staggering 7.9% EBITDA margins by FY19E from as low as 2.8% in FY16.

Boost in economic activity to bring in liquidity and profitability for SEIL: Over the past few years industry has faced issues with liquidity thereby leading to higher working capital requirement. However, once upturn in economic cycle kicks in, better EBITDA margins, improved operational efficiency and improved working capital cycle should translate into robust profitability (NPM from -1.3% in FY16 to 4.2% in FY19E). Going forward, we expect the D/E to improve and stabilize at 1x and expect the company to post positive returns on capital and equity (16.9% and 55.9% respectively by FY19E).

Market Data

Shares outs (mn)	239
Equity Cap (INR mn)	478.2
Mkt Cap (INR mn)	33952.2
52 Wk H/L (INR)	185/127
Volume Avg (3m K)	190.30
Face Value (INR)	2
Bloomberg Code	SCHN IN

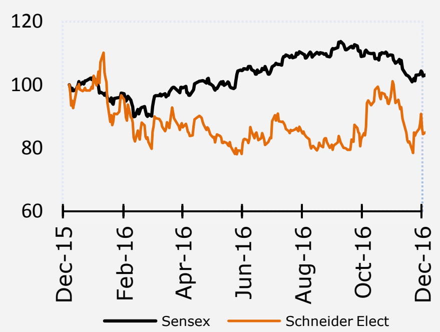
*As on 6th Dec 16

Market Info:

SENSEX	26393
NIFTY	8143

*As on 6th Dec 16

Price Performance



Share Holding pattern (%)

Particulars	Sep16	Jun16	Mar16
Promoters	75.0	75.0	75.0
FIIs	0.3	0.3	0.3
DIIs	7.2	7.2	7.6
Others	17.5	17.5	17.1
Total	100.0	100.0	100.0

Source: BSE

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Valuation: Thanks to the new government reforms, anticipated economic uptick followed by better industrial development and the resultant improved demand should bring the desired development in the power sector. With these imminent developments in place, SEIL stands poised to deliver steady revenue growth at 12% CAGR by FY19E on the back of its improved offerings of advanced automation solutions, establish self healing grids, unmanned stations, asset management solutions. While the current valuations fall in the higher orbit, we value SEIL on 32x EV/EBITDA on FY19E basis (expected EBITDA of INR 1557.1 mn). Notwithstanding its peers trading at a premium multiple (~ current avg multiple of 33x), the on-going re-structuring exercise indicate a turnaround story for SEIL justifying the premium fair value EV/EBITDA metrics. Hence we recommend a **"BUY"** on company with a **target price of INR 200,** implying **41% upside**. At CMP of INR 142, SEIL is trading at 95x FY16 EV/EBITDA, 80x FY17E EV/EBITDA, 38x FY18E EV/EBITDA and 25x FY19E EV/EBITDA.

Key Financials:

Particulars (INR mn)	2015	2016	2017E	2018E	2019E
Net Sales	13104.8	14026.1	14782.5	16785.0	19710.0
EBITDA	-233.4	397.7	487.8	1023.9	1557.1
PAT	-285.5	-182.0	-65.7	313.6	711.3
OPM (%)	-1.8%	2.8%	3.3%	6.1%	7.9%
NPM (%)	-2.2%	-1.3%	-0.4%	1.9%	3.6%
EPS	-1.4	-0.7	-0.3	1.3	3.0
EV/EBITDA	-211.0	95.3	80.0	38.1	25.0

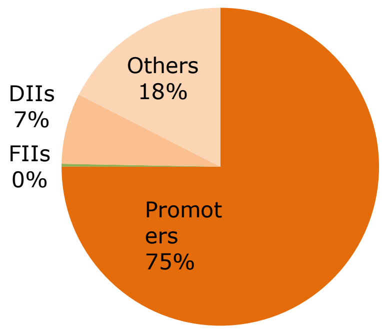
Source: Company Data, KRChoksey Research

BUSINESS OVERVIEW

Company Brief

Schneider Electric Infrastructure Ltd was incorporated on March 12, 2011 with the name Smart-grid Automation Distribution and Switchgear Ltd. respectively. The company has 4 manufacturing facilities in India spread over 3 locations and has 4 regional offices and 13 branch/sales offices located across the country. The company's major customers are electrical distribution (utilities) and power generation companies in public as well as private sector and companies in electro-intensive industry particularly oil & gas and metals related.

Share Holding Pattern



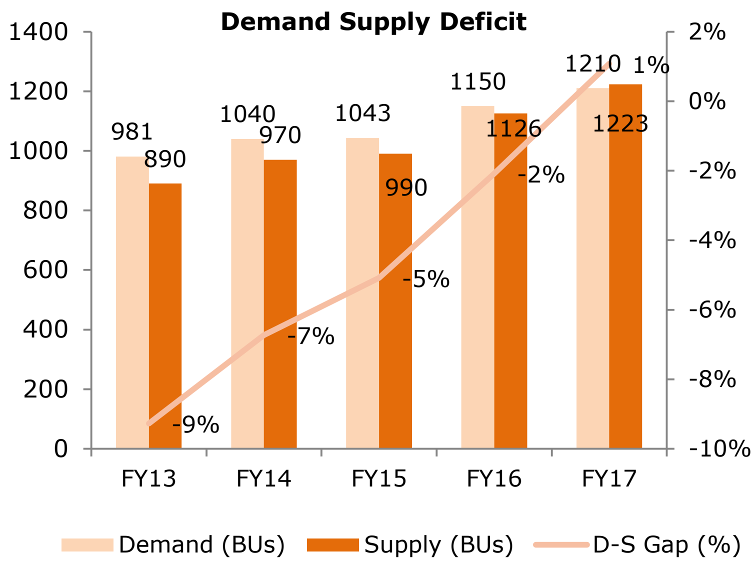
Business Model	Schneider Electric Infrastructure Ltd is engaged in the business of manufacturing, designing, building and servicing technologically advanced products and systems for electricity network, including products such as transformers, medium voltage switchgears, protection relays and electricity distribution management systems and software. The core activities of the Company include three major business lines: Transactional Business (26% of FY 16 revenues), Services (4.8% of FY 16 revenue) and Systems (69.3% of FY16 revenue). The company's major customers are electrical distribution (utilities) and power generation companies in public as well as private sector and companies in electro-intensive industry particularly oil & gas and metals related.
Strategic Positioning	The company's parent has an established track record and is a global specialist in energy management and automation. Company is among the top 3 energy management companies in India. It offer slow- and medium-voltage distribution products, such as transformers, switchgears, ring main units, automation, auto-reclosures, solar inverters and substation components &solutions for energy management useful for smart cities, process automation, renewable and transportation.
Competitive Edge	The company has developed long term relationships with various Indian and international power utilities, governmental organizations and other power sector intermediaries Company and its parent is a global leader in the Energy Management and sets the benchmark for innovative and focused technologies for Utilities/ Industry/ O&G/ Transport Segment in India. Company's strong presence in Infrastructure, Power, Building, Industry and IT segments, coupled with its ability to offer Services cutting across these segments, provides a distinctive advantage to serve its customers.
Financial Structure	During FY15-16 company's revenue of INR 14,026Mn, EBITDA at INR 397 Mn with a margin of 2.8% and recorded a loss of INR 182Mn. As of FY16 company's debt stood at INR1752 Mn and Net D/E stood at 1.43x.
Key Competitors	The company has been competing with various companies across different business segments namely Siemens, ABB and Techno Electric, etc.
Industry Revenue Drivers	Government initiatives like implementation of UDAY reforms, implementation of IPDS by state distribution companies (largely funded by the government) to strengthen urban T&D network. Infrastructure and need of solar power electrical will lead to power capacity addition, improving economic activity in the country. Increasing private participation, scope for rural electrification and introducing advanced technology additionally Roll-out of smart cities and water management solutions will be the key drivers for industry.
Share holder Value Proposition	Schneider Electric Infrastructure Ltd offers a unique proposition to shareholders by offering a unique business model to participate in India's power growth story. Improving margins and return ratio and with strong parental support we expect the company to deliver returns for shareholders.

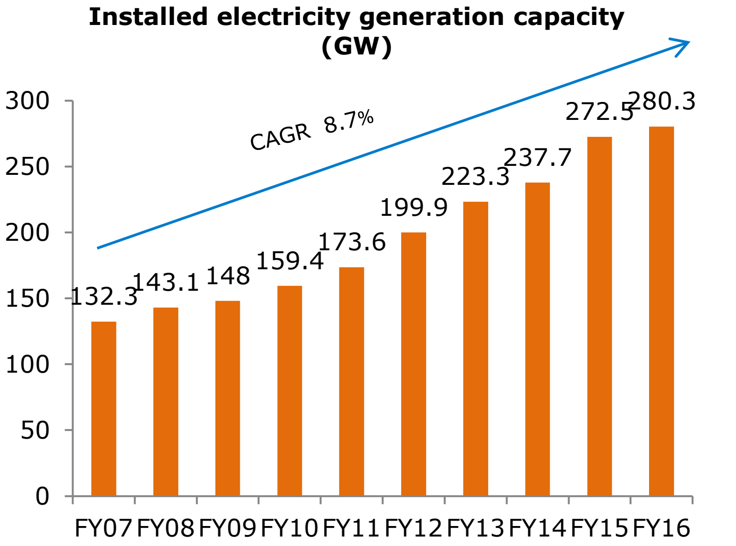
Industry Outlook:

India's Power Sector

Growth of Power Sector in India since its independence has been noteworthy. However, the demand for power has been outstripping the growth of availability of power demand by average 4% from FY13 to FY16. This is due to inadequacies in generation, transmission & distribution as well as inefficient use of electricity. Very high level of technical and commercial losses and lack of commercial approach in management of utilities has led to unsustainable financial operations. Cross-subsidies have risen to unsustainable levels. Inadequacies in distribution networks have been one of the major reasons for poor quality of supply.

Over the last few years Indian power sector has been slowly transforming and evolving from the haphazard of the past. Slapdash implementation of policies like Rajiv Gandhi Grameen Vidyutikaran Yojana in past resulted into various failures across the value chain, creating a crisis situation in 2012. Since then government has been proactive in its approach and has taken steps in vitalizing and reviving the power sector. However, the path so far has not been easy but with new schemes (IDPS, UDAY, etc.) and renewed push to power sector from new government has shown signs of revival.

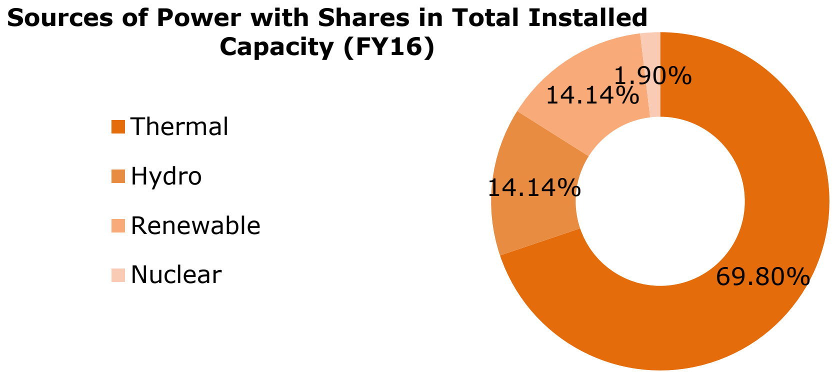




Source: Company Data, KRChoksey Research

12th five year plan and National Electricity Policy (NEP) has played an instrumental role in setting up the foundation of reforms in power sector. Under the 12th five year plan India is estimated to add 76,000 MW to meet the demand projections of the country. The National Electricity Policy has laid guidelines for accelerated development of the power sector, providing supply of electricity to all areas and protecting interests of consumers and other stakeholders keeping in view availability of energy resources, technology available to exploit these resources, economics of generation using different resources, and energy security issues.

According, to the latest annual report of Ministry of Power (MOP 2015-2016), India's power supply position in the country has improved. The demand-supply gap in terms of energy has reduced to 2.3% in FY16 from 9% of FY13. Similarly, the peak shortage in the country has reduced to 3.2% during the period April, 2015 to November, 2015 compared to 4.7% during the corresponding period of the previous year. Electricity generation target for the year 2015-2016 is fixed as 1137.5 Billion Unit (BU).

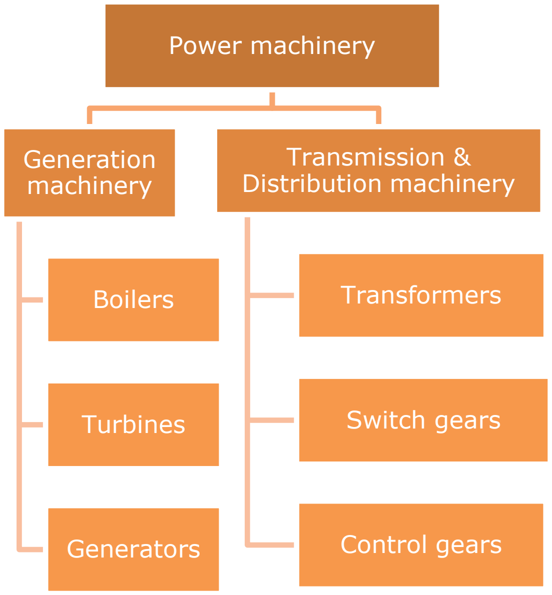


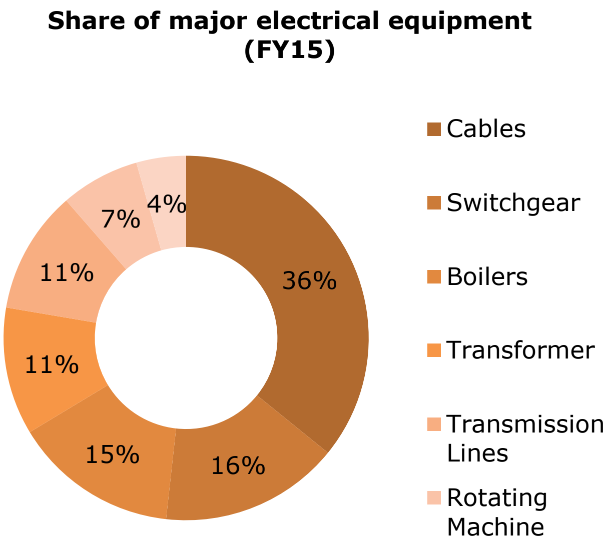
Source: Company Data, KRChoksey Research

Industry Outlook:

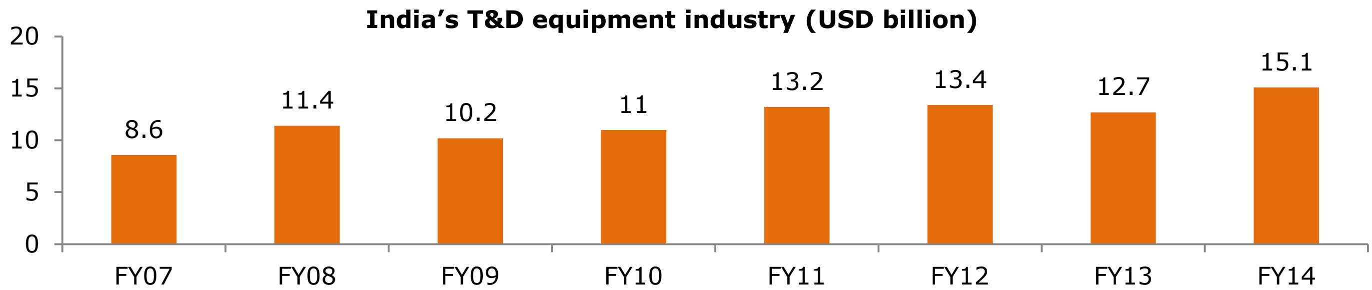
India's Power Equipment Sector

India's Power Equipment sector comprises of two segments – generation equipment (boilers, turbines, generators) and transmission & distribution (T&D). T&D Machinery comprises of allied equipment likes transformers, cables, transmission lines, switchgears, capacitors, energy meters, instrument transformers, surge arrestors, stamping and lamination, insulators, insulating material, industrial electronics, indicating instruments, winding wires, etc. The generation equipment sector is 28% and T&D equipment sector 72% of the overall industry.





Source: Company Data, KRChoksey Research



Source: Company Data, KRChoksey Research

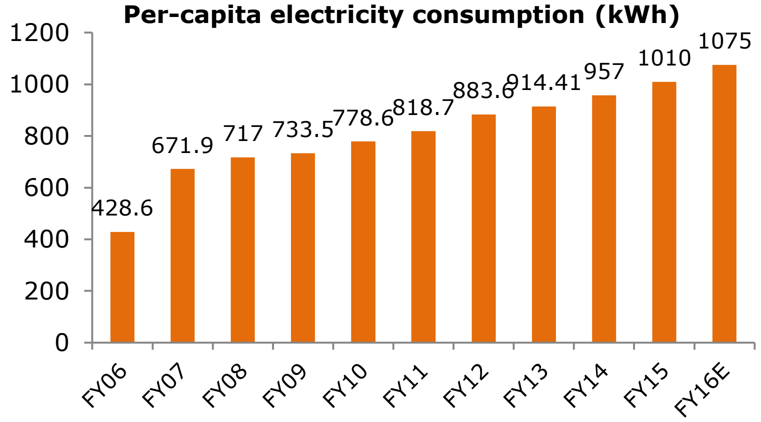
Growth of Power equipment sector is directly linked with power generation and Transmission and distribution sector. India over the years has witnessed major in-efficiencies like ATC losses and fuel unavailability across the value chain leading to subdued growth in the power equipment sector. However, despite facing problems India's power equipment sector has managed to grow at 11.6% CAGR from FY05-15, mainly driven by exports (18.6%). However, Major Electrical Equipment industry growth in past 10 years has grown 8.3% in past 5 years (IBEF Report 2016).

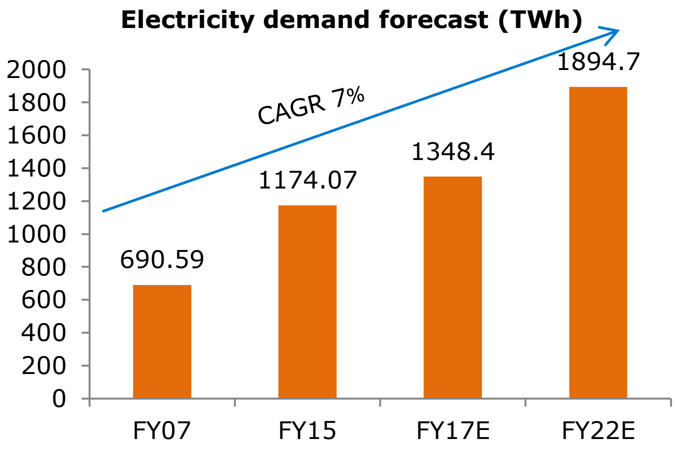
Schneider Electric Infrastructure Ltd.

Factors leading to industry growth:

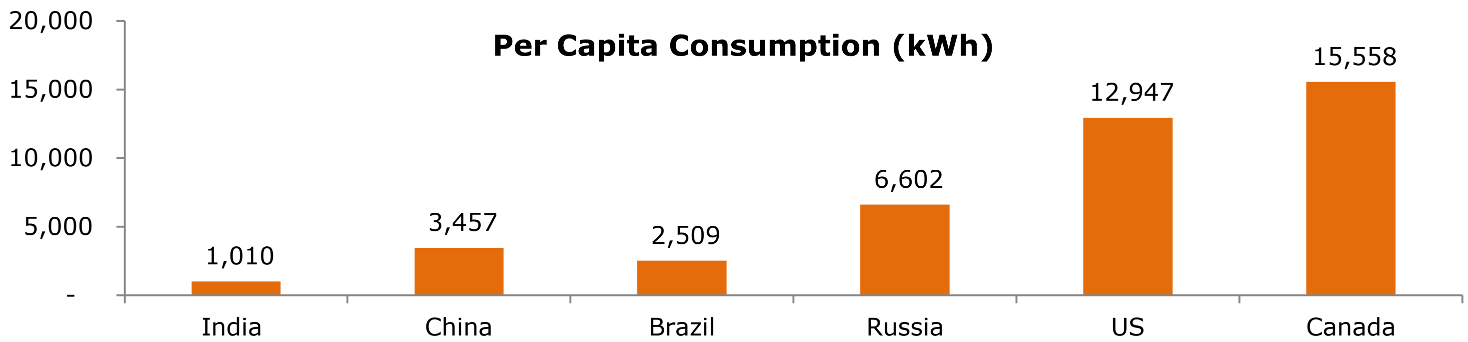
a) Increasing power demand will lead to growth in power equipment industry.

We expect demand in T&D equipment market to grow at 25.7% CAGR between FY15 to FY22 as we expect the industry to expand to USD 75Bn by 2022 from 15.1Bn in 2015. Indian power sector has made substantial progress both in terms of enhancing power generation and in making available power to widely distributed geographical boundaries. The Indian power system is the fifth largest in the world and among the most complex systems. With an annual electricity production of 1,107 billion units (BU), it is among the top five power consumers across the globe. India's per capita energy consumption stands at ~1,010 kWh and is expected to cross 2,000 kWh by 2040 led by increase in industrial activity, infrastructure and increase in number of household. We expect strong growth to be led by Industrial sector as India is targeting a gross domestic product (GDP) growth rate of 8-9% in the coming years. As we know efficient power supply system is a key requirement for a nation's economic growth and the quality of life of its citizens.





Source: Company Data, KRChoksey Research



Source: Company Data, KRChoksey Research

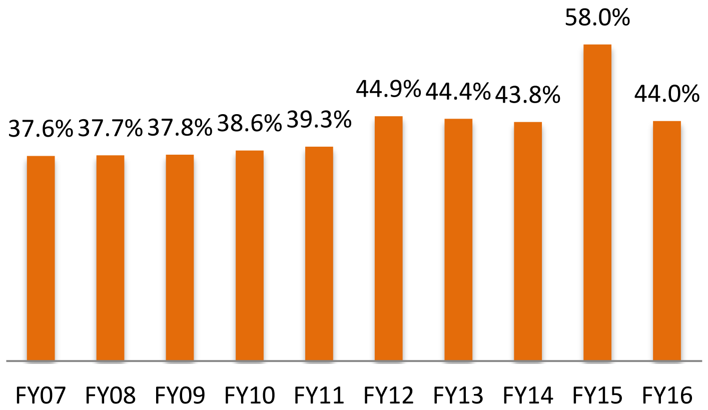
Electricity demand across sectors in India

Particulars	2000	2013	2020E	2030E	CAGR (2013-2020)
Industry	158	375	565	904	**6%**
Residential	79	207	329	647	**7%**
Services	46	133	207	332	**7%**
Transport	8	15	20	24	**4%**
Agriculture	85	160	222	324	**5%**
Other energy sector	0	6	8	10	**4%**
Total Electricity Demand (TWh)	**376**	**897**	**1351**	**2241**	

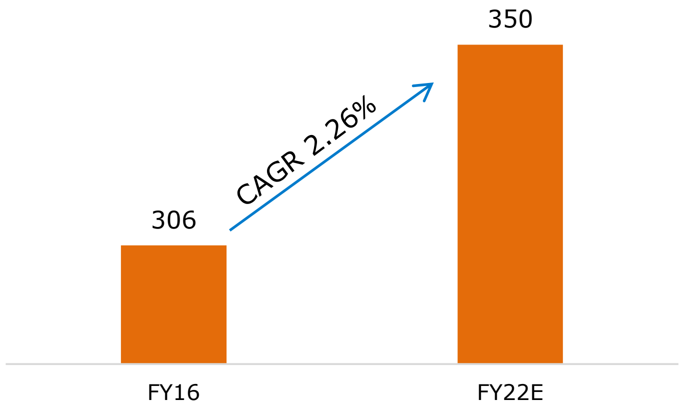
Source: Company Data, KRChoksey Research

Industry remains the largest consumer of electricity in India. According to latest report by International Energy agency (IEA) 2015, India's industrial electricity demand is expected to double at 6% CAGR over 2020E. The report says though the overall share of industry in electricity consumption falls slightly from 42% in 2013 to 39% by 2040. The largest increase is expected to come from the steel and aluminum sub-sectors, which are responsible for 18% and 9% respectively of the rise in consumption. We believe as India prepares to become an export hub for the world and with government's effort to promote "Make in India" will result in high demand for electricity and their by demand for electrical equipments in India.

Share of electricity consumption in industrial sector



Installed capacity set to increase



Source: Company Data, KRChoksey Research

b) New government policy to result in favorable business environment

Since 2012 crisis, government has taken proactive measures to improve power situation in India. However, so far power sector has faced various problems across the value chain plagued by in-efficiency and corruption. Amongst the hardest hit in the value chain has been "Distribution" sector leading to downfall of overall industry. Since new government has taken over, the approach of minimum government maximum governance has been quite successful by following an integrated approach. 12th five year plan, Amendment in National Tariff Policy (NEP), implementation of Ujawal Discom Assurance Yojana (UDAY), Integrated Power Development Scheme (IPDS), etc.

Following are the key policy changes in power equipment and power sector undertaken by the GoI over past few years

Electricity Act, 2003	•Elimination of licensing for electricity generation projects •Increased competition through international competitive bidding •Demarcation of transmission as a separate activity
National Tariff Policy, 2006	•Adequate return on investment to companies engaged in power generation, transmission and distribution •Uniform guidelines to SERCs for fixing tariffs •Assured electricity to consumers at reasonable and competitive rates
Fuel Supply Agreement	•Fuel supply agreement with Coal India Ltd will ensure the availability of coal for power companies over the long term
De-licensing	•The electrical machinery industry has been de-licensed; 100% FDI is allowed in the sector •This has facilitated the entry of global majors into the electrical machinery industry in India
Initiatives to increase power generation	•Planned capacity addition of 115 GW in the 12th Five-Year Plan. The government is targeting to provide 24/7 power by 2022. •Through the Accelerated Power Development Reform Programme, the government plans to provide reliable, affordable and high-quality power to all

Source: Company Data, KRChoksey Research

We believe these policy changes will lead to support of electrical equipment growth in coming future and we expect it will help India realize its "Vision 2022" for Indian electrical equipment industry. Under the "Vision 2022" policy following changes are proposed:-

"Vision 2022" for Indian electrical equipment industry:

Vision statement	•To make India the country of choice for the production of electrical equipment and reach an output of USD100 billion by balancing exports and imports
Focus on industry competitiveness	•To focus on technology and R&D and bring it on par with global benchmark, the government has lowered customs duties on a range of equipment
Identify skills to support industry's requirement	•The government plans to set up the Electrical Equipment Skill Development Council (EESDC) which would focus on identifying critical manufacturing skills required for the electrical machinery industry
Develop and strengthen support infrastructure	•The government plans to establish electrical equipment industry clusters •It plans to take steps to enhance product-testing infrastructure in the country
Increase share in export market	•The government plans to provide credit support to economically less developed export markets •It aims to create a dedicated fund for EXIM bank to support exporters in the electrical machinery industry

Source: Company Data, KRChoksey Research

We expect the above-mentioned policy measures along with increasing demand will accentuate power equipment companies' growth, going forward. However, in near future we expect that short term challenges may create a hurdle for the industry but as implementation improves and as government becomes proactive we expect strengthening policy support to favor business environment for industry.

c) Smart technologies and replacement of age old infra will pave way for fresh capital infusion

In order to meet the future demand arising out of the planned generation capacity addition of 88.5 GW and 93 GW for 12th and 13th Plans respectively, it is extremely important that domestic equipment manufacturers are in sync with domestic transmission and distribution equipment manufacturers. In the absence of corresponding transmission and distribution equipment, capacity addition will be difficult to achieve. In order to meet this challenge, the domestic electrical equipment industry has to prepare itself holistically.

Hence, it is important that BTG and T&D equipment manufacturers to keep pace with the latest global technological developments, not only to meet domestic demand but to ensure efficient generation, transmission and distribution of power comparable with the best solutions available across the globe for different environments. The domestic innovations in electrical equipment product design need to match the global pace, and also boost Indian exports as well as reduce dependence on imports. Use of latest technology to enhance plant automation and protection against cyber threats to protect the safety and security of power systems is another crucial area requiring attention.

The entire power sector value chain crucially hinges on the financial viability of the power distribution sector. In fact, state power distribution companies are bulk buyers of power from power generation plants. AT&C losses of the majority of DISCOMs, on an average, are more than 27%. DISCOMs are not in a position to buy the power and sign long-term PPA with the developers.

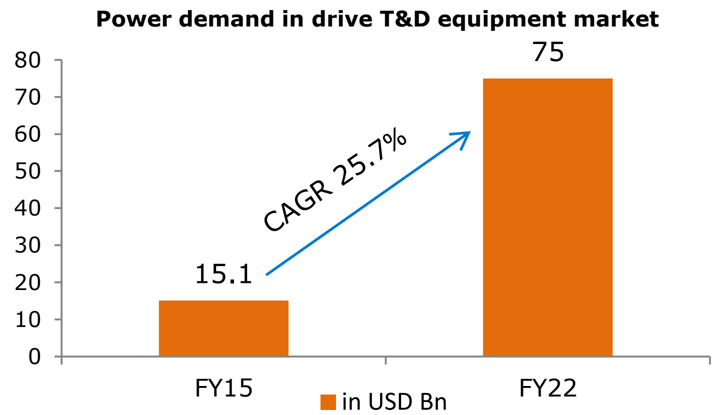
In developing economies like India, smart grids can save energy by efficiently harnessing the renewable energy resources which are abundantly available in the country. Smart grid uses digital communication and digital control technology and helps in reducing the loss on the distribution system.

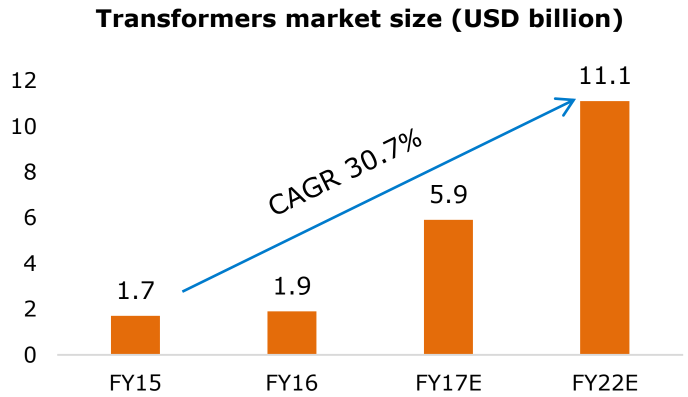
Results show that when renewable energy sources are connected to the distribution system, the power flow gets altered and this would necessitate a change in the protection system settings. Also, sudden connection or disconnection of renewable energy sources due to faults may result in unacceptable transients in voltages in the distribution system, which needs to be mitigated.

A smart grid is a digital upgrade of a power system that is capable of assessing its health in real-time, predicting its behavior and initiating corrective action. In case of rural areas, where DDG and other biogas and wind turbines will be running, the smart grids will help in feeding power from these generating units to the grid with minimum transients when this power is not required in the rural areas and also take power from the grid at the time when grid supply is the cheapest.

India is also likely to face increasing international pressure to reduce its emission intensity. The National Action Plan on Climate Change (NAPCC) of the Government of India emphasis the use of clean coal technologies such as supercritical, ultra-supercritical and integrated gasification combined cycle (IGCC) that help minimize CO2 emissions while giving the highest possible energy efficiency and reducing the coal required per unit of power generated. Supercritical technology has already been adopted commercially in India. A large number of 660 and 800 MW supercritical thermal power plants are under construction. Power plants with ultra-supercritical (USC) steam parameters (i.e., ^{3} 250 kg/cm2 / ^{3} 600o C), which have higher efficiencies are likely to be set up in India in the next few years. Ultra supercritical plants are already in commercial operation in Europe, Japan, China, etc.

As a result of these smart initiatives, we expect acceleration in power generation and transmission, the electrical machinery sector is expected to witness new demand for electrical machinery of value around US$ 15.28 billion by 2020.

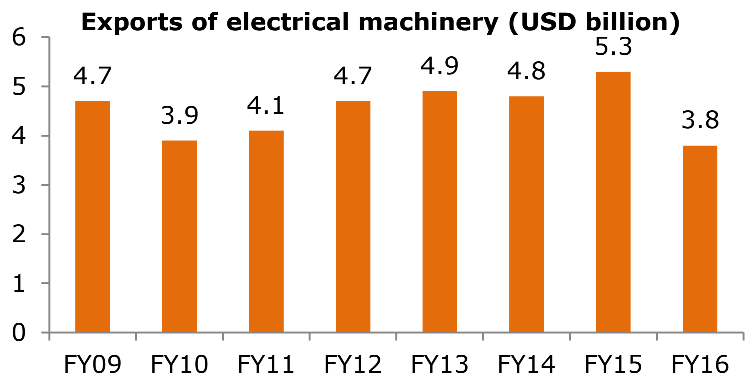


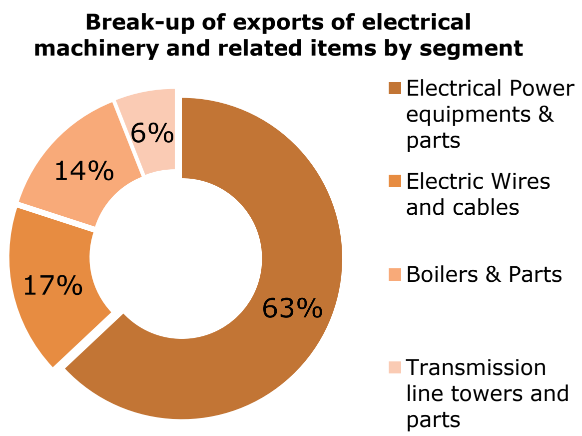


Source: Company Data, KRChoksey Research

d) Increase in investment, favorable policies and increase in private players to drive exports of electrical equipment industry.

Performance of the domestic electrical industry has been strong over the last decade, it is important to maintain sustained high rate of growth if it has to meet the demand arising out of the targeted generation capacity addition, meet the growth of other sectors of economy and also become globally competitive and increase exports. Over the last five years, electrical equipment industry has increased at a CAGR of 9.7% whereas imports have increased at a CAGR of 27.2%. Electrical industry's share of exports is about 1.5% of the country's total exports, whereas its share of imports is about 3.2% of the total imports. The country's trade deficit in electrical equipment is widening every year, which has been a matter of serious concern. Indian industry is also unable to compete globally; blame it to the industry's lack of focus on quality of the products, delivery commitments, high cost of shipment, lack of infrastructure, non-recognition of test certificates of CPRI by some countries, high cost of production, high cost of finance, lack of interaction of the industry with Indian missions and trade commission abroad.





Source: Company Data, KRChoksey Research

However, over last few years government has made various changes in policy and now envisions becoming an export hub through its "Make in India" programme. We believe with current ongoing programme like IPDS, UDAY will lead to serious reforms in sector in coming years. Additionally, with foreign capital flowing and investing in India we expect latest technology to bring in up gradation and modernization into the sector thereby leading to better product quality.

We believe following steps by government would lead to further boost to the industry:

De-licensing	•The electrical machinery industry has been de-licensed; 100% FDI is allowed in the sector •This has facilitated the entry of global majors into the electrical machinery industry in India
Tariffs & custom duties	•Government has removed tariff protection on capital goods •Government has lowered custom duties on a range of equipments •Relatively lower custom duties; 5.0% for power generation equipment and 7.5% for T&D
SEZ	•The government has approved fifteen SEZs for the engineering sector across the country; electrical machinery is a part of the sector. As of May 10, 2016, thirteen exporting SEZs are operational •Delhi Mumbai Industrial Corridor being developed across seven states could boost the engineering sector

Source: Company Data, KRChoksey Research

Ministry of Power's concerted endeavors to uplift power sector and provide adequate power should help fuel the growing economy of the country. However, this growth of the Power Sector has to be within the realms of the principles of sustainable development. A low carbon growth strategy has been adopted in its planning process and highest priority is accorded to development of generation based on renewable energy sources. Thrust is also accorded to maximizing efficiency in the entire electricity chain, which has the duel advantage of conserving scarce resources and minimizing the effect on the environment. It is in this context that plans for development of the Power Sector have been laid out in 12th Plan, which we reckon, will be achievable in years to come.

Investment Rationale:

a) On-going power sector reforms to propel order book.

In order to boost the power sector, the Government has taken several initiatives like **Ujawal Discom Assurance Yojana (UDAY), Integrated Power Development Scheme (IPDS) and Deen Dayal Upadhyaya Scheme**. The Government's vision to generate two trillion units (kilowatt hours) of energy by 2019 to provide **24x7 electricity** to all classes and masses, opens up immense opportunities across sectors for power and power equipment companies. Concurrently, substantial investment by Government to the tune of INR 3,200 Bn should result in fresh inflow of funds thereby leading to healthy orders across the value chain. We expect these changes to reap benefits in the form of healthy order flow over coming years. We expect SEIL to benefit largely on account of government's outflow; for the year FY16, total outlay for the power sector is estimated at USD 10.05 Bn and for FY17 is estimated at USD 11.18bn, of which the amount for budgetary support for 8 major group schemes is estimated at USD 1.82Bn. Furthermore, as GDP is projected to grow at the rate of about 8% over the next few years, power sector is set to be the biggest beneficiary of this growth.

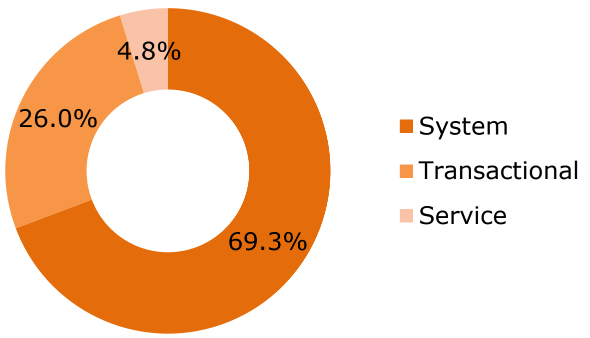
b) Change in Product mix and operational efficiency to boost margins

Products and solutions are complementary business models where company aims to deliver profitable growth. The diversified product profile helps SEIL achieve scale and pricing power whereas Solutions and Services allow company to generate additional growth and profits, lower capital intensity and help reduce cyclicality. We believe in order to fortify its leadership position and maintain growth, the company is expected to leverage upon its technology and offer connected, market leading products.

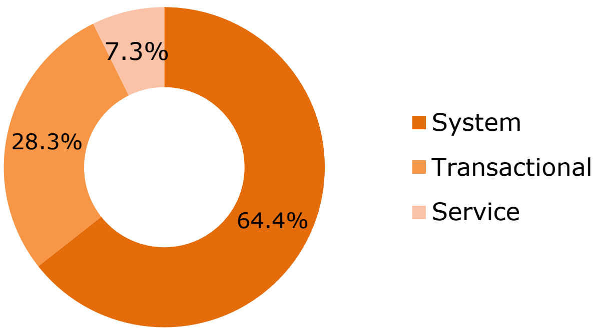
The company's business is comprised of three segments:

1) **System business (69% of FY16 Revenues):** Company's system business provides holistic solutions which include complete systems for electricity network, including products such as transformers, switchgears, protection relays and electricity distribution management systems. Despite providing full-fledged systems, SEIL reports lower margin trends 5% as the company compromises over margins for bulky order wins. However, this scenario should change going forward. With the anticipated improvement in financial health of DISCOMs, we expect healthy order inflow into the industry as a whole thereby bringing healthy competition and expanding the pie for all the players to co-exist. Subsequently, this should imply better margins of ~8% for the company in particular and the industry in general.
2) **Transactional business (26% of FY16 Revenues):** As part of transactional business segment, company produces and supplies products like transformers, sub-stations and various equipments for distribution companies and OEMs. During Q1FY17, company's transactional business grew by 25% yoy and is expected to maintain healthy growth pace, thanks to the on-going sectoral reforms. We believe, significant improvement in order inflows should generate sizeable demand which in turn should drive the transactional business forward. Consequently, the company should report healthy margin (~10% by FY19E) in this particular segment.
3) **Service business (4.8% of FY16 Revenues):** Company's service business includes Annual Maintenance Contract (AMC) business which serves distribution companies and maintains their installed systems. Besides, SEIL provides Automation solutions like SCADA (supervisory control and data acquisition). For 1QFY17, the company's service business grew by 25% y-o-y on the back of demand for automation. We believe with industry shifting towards smarter technology, the need for automation services should be on the rise. We expect Schneider's service business to add further cream to company's margin to reach 8.6% by FY19E.

FY16 Revenue Break-up



FY19E Revenue Break-up



Source: Company Data, KRChoksey Research

c) Improving liquidity in industry to aid company's cash-flow

The Distribution Sector plays a crucial role in the overall functioning of the Power Sector. However, in recent years distribution companies have been witnessing growing concerns over its financial health. Complex regulatory processes and high costs of financing upcoming projects lead to cost overruns, resulting in high tariffs. Populist tariff schemes exacerbated by operational inefficiencies and aggregate technical and commercial (AT&C) losses estimated at 22.70% (in FY14) affect the financial viability of state DISCOMs, which are grappling with huge debts. The distribution sector accounts for nearly 20% of the losses. A 10% reduction in distribution losses per annum can augment the supply of electricity by nearly 100 BU per year.

Since the new government has taken over, Power Ministry has been emphasizing on an efficient and well performing distribution sector and focusing on the improvement of financial health of utilities towards providing reliable and quality power supply and universal access to power by its UDAY (Ujwal Discom Assurance Yojana) programme.

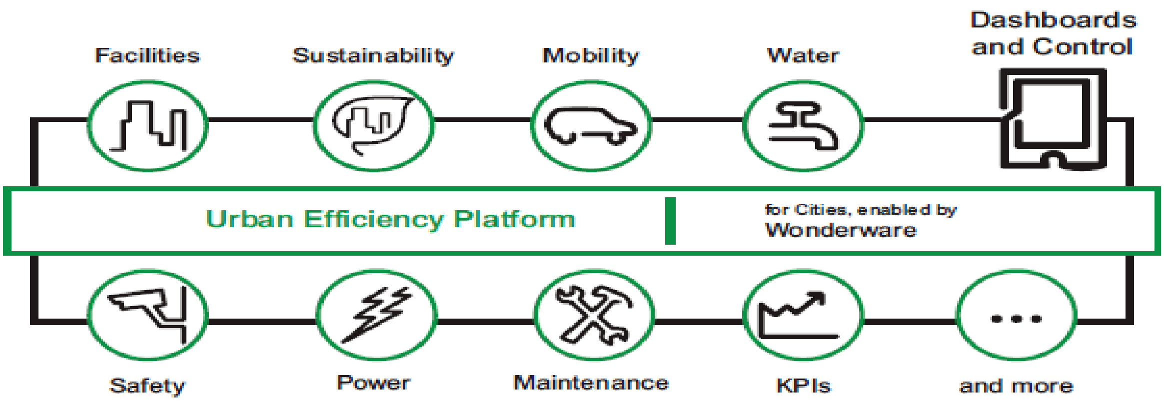
However, it is been observed that a settlement of past dues alone would not solve the basic problem faced by the SEBs. We believe, in order to facilitate the strategic goal of ensuring round-the-clock power for the entire nation, the government will have to take several initiatives such as smart grid, IT enablement and process automation, high-voltage distribution system (HVDS), demand side management (DSM), PPPs, power trading, and various energy efficiency (EE) initiatives. We expect these initiatives by government will lead to turnaround in the Distribution sector thereby improving financial liquidity in the power equipment industry. We further believe as liquidity position improves in the industry fresh flow of order will flow resulting into increase in order book. We believe Schneider's offering in the form of wide range of products and solutions in the distribution segment makes company stand at a sweet spot.

d) Schneider's smart offering bridges solutions for Smart City

A smart city is characterized by the integration of technology into a strategic approach to sustainability, citizen wellbeing, and economic development. Ultimately, the Smart City is about urban efficiency and doing more with less providing differentiated services to citizens, reducing costs and generating revenue. Schneider Electric delivers systems that provide the infrastructure for business - in energy, water and commercial buildings. Company's integrated; collaborative approach enables cities to holistically manage all these systems to achieve urban efficiency today. The company's approach delivers short-term, visible, measurable, low investment results that cities need today.

The solution company proposes will allow the city to monitor and control multiple, disparate systems in real time. This Urban Efficiency Platform has been combined with advanced sustainability reporting tools, analytics, operational control solutions and innovative applications to provide a truly efficient 'system of systems'.

Smart Solutions in smart city



Source: Company Data, KRChoksey Research

e) Strong parental support to help company leverage its experience

Schneider Electric Infrastructure Ltd is a part of the Schneider Electric Group, the global specialist in energy management. Globally, Schneider Electric is second largest business globally with (Revenue of 26.64 Euro Bn), more than 160,843 employees, 80 plants, 250 service centres, 51% of sales in New Economies and 1300 employees in R&D. As a global specialist in energy management, with operations in 100 countries, the group enjoys leadership position in Utilities and Infrastructure, machine Industry and Manufacturers, Non-residential buildings, Data centers and Network and residential.

In India, Schneider Electric Infrastructure Ltd is positioned to offer full capabilities of the global infrastructure business to consolidate its leadership position by bringing the full benefit of our cutting-edge products, solutions and service to its customers. We believe company will be able to leverage and utilize group's expertise going forward thereby helping SEIL consolidate its position in the market. We expect Schneider electric India to largely benefit out of government's agenda to make India an export hub and with Chairman of Schneider group 'Jean Pascal' committing to invest in India and expand its capacities, we expect the company to receive healthy orders from its parent. Additionally, we also believe company will benefit from 20,000 patents which parent has across worldwide, thereby helping company to execute orders at an efficient rate.

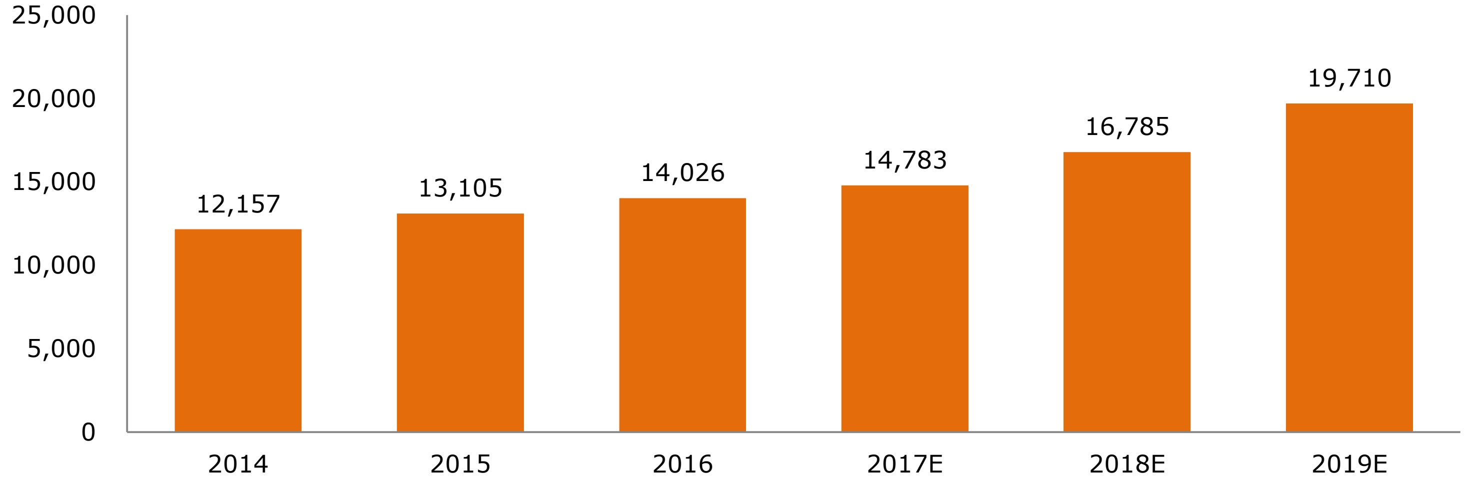
Financial Overview:

a) Reforms, smart city and sizeable infra spend to lead revenue growth:

Thanks to the new government reforms, anticipated economic uptick followed by better industrial development and the resultant improved demand should bring the desired development in the power sector. Such a copious power sector should give way to opportunities across power generation, transmission, distribution, equipment and servicing segments. Furthermore, private sector participation should also lead to higher investments for power equipment companies.

We expect Government's initiative, upbeat economic cycle should bring back glory in power and power equipment industry, propelling order books of companies and particularly SEIL. Going forward, we believe these orders should result in healthy revenue growth of 12% CAGR by FY19E at INR 19,710 Mn from 14,026 Mn of FY16.

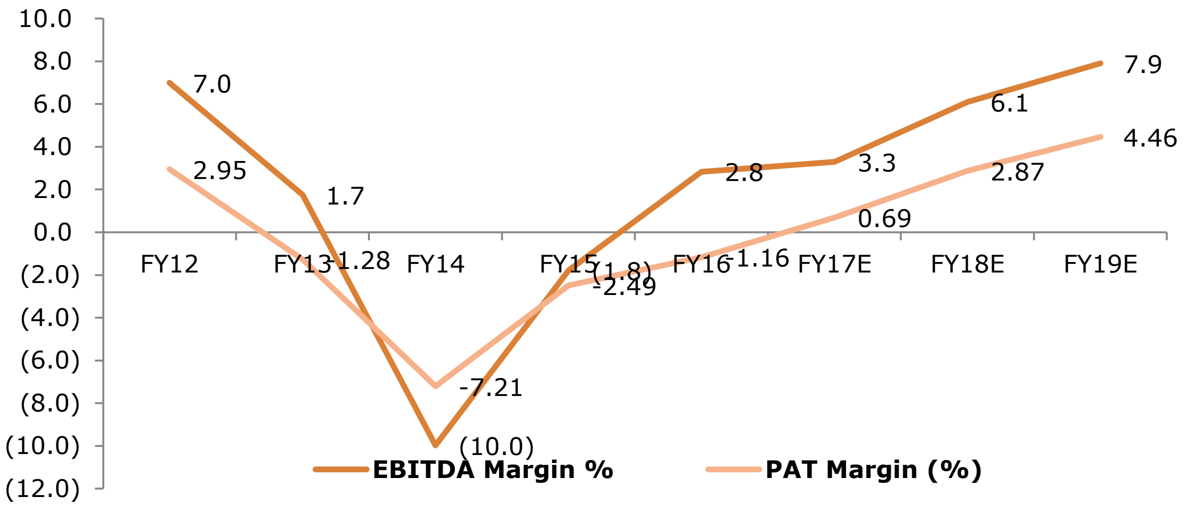
Propelling order book to increase revenue (INR Mn)



Source: Company Data, KRChoksey Research

b) Operational efficiency to boost margins

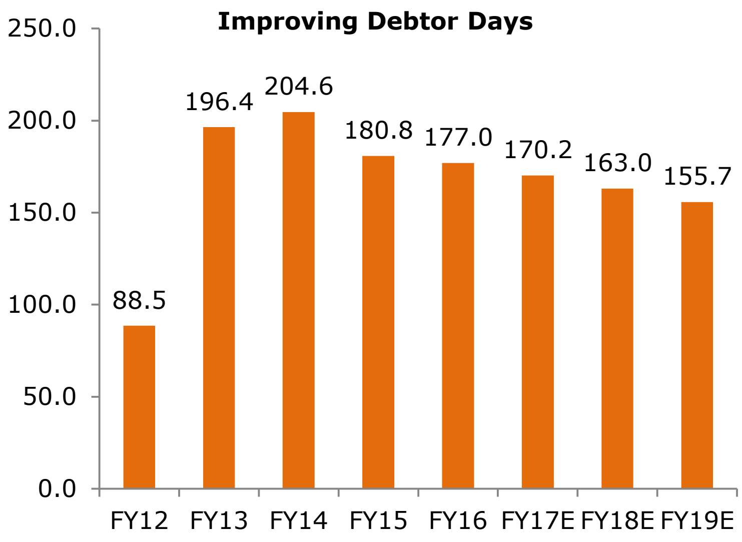
We believe company's solutions and products will provide significant opportunities to establish greater customer intimacy and sustainable business opportunities. The company has developed tested, validated and documented reference architectures for solutions in targeted end-markets, in order to facilitate smooth integration of its products and speed up project design. As we know greater emphasis is laid by the company and as demand for smart solutions increases we expect changes in companies offering, driven by solutions which should result into higher margins (quantify). With company's on-going cost optimization program, we believe company's margin to improve drastically and will be in-line with its peers (~8%). Hence, we expect company's margin to improve from 2.8% in FY16 to 8.9% by FY19E.

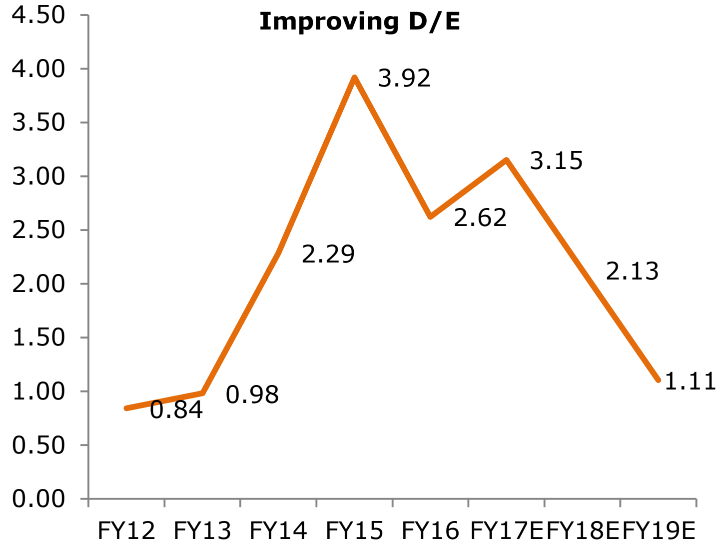


Source: Company Data, KRChoksey Research

c) Improving liquidity in the industry will also help company improve its working capital

Improving liquidity in the industry will also help company to improve its working capital days substantially thereby leading to lower short-term borrowings. Hence, going forward we expect company's debt to equity to come down to 1.1x by FY19 from current 2.6x of FY16 resulting from stable debt and increase in company's reserve. We expect outstanding days to come down to 155.7 days to FY19 from 177 days of FY16.





Source: Company Data, KRChoksey Research

Valuation and Outlook:

Over the past 60 years or so, India has taken rapid strides in the development of the power sector both in terms of enhancing power generation as well as in making power available to widely distributed geographical boundaries. In order to meet the increasing demand for electricity, large additions to the installed generating capacity and development of transmission and distribution network is required. However, this developmental process has to be within the realms of sustainable power development and environmental concerns.

The tarnished past of the power sector riddled with acute fundamental weaknesses necessitated reform processes. Despite sufficient policy initiatives in place, the task of transforming the power sector is yet to be achieved. Further, lifeline energy needs of all households also are yet to be met up with. Hence, the vision and the constant effort of the Government to not only increase the power generation in the country but also ensure power availability with distinct attention to the poor and vulnerable sections of the society.

While the power sector continues to grapple with the aforesaid concerns, the major hindrance to this industry development in general and SEIL in particular is the poor financial condition of State utilities on account of high AT&C losses and inadequate tariff.

Further, certain challenges in the form of environment clearances and lack of availability of land and water for power projects, shortage of talent and trained manpower in the construction sector continue to push up project costs and risks.

While concerted efforts are being made to tackle these issues, actions on the part of Ministries and respective Departments stand in progress to comprehensively work out plausible solutions.

The "Make in India" concept (with emphasis on "Industrial Goods") coupled with consistent power availability (24x7 power to all) and reduction in power thefts should create considerable growth opportunities. Moreover, large corporations, in recent times, have stood cognizant of the power security and safety measures for operators and the required favorable environment thereby improving operational efficiencies across their whole enterprise.

Therefore, the new government reforms, anticipated economic uptick followed by better industrial development and the resultant improved demand should bring the desired development in the power sector. Such a copious power sector should give way to opportunities across power generation, transmission, distribution, equipment and servicing segments. Furthermore, private sector participation should also lead to higher investments for power equipment companies.

With these imminent developments in place, SEIL stands poised to deliver steady revenue growth at 12% CAGR by FY19E on the back of its improved offerings of advanced automation solutions, establish self healing grids, unmanned stations, asset management solutions. Besides, engagement with customer and partners at the center of its R&D practices will help company to maintain sustainable growth.

While the current valuations fall in the higher orbit, we value SEIL on 32x EV/EBITDA on FY19E basis (expected EBITDA of INR 1557.1 mn). Notwithstanding its peers trading at a premium multiple (~ current avg multiple of 33x), the on-going re-structuring exercise indicate a turnaround story for SEIL justifying the premium fair value EV/EBITDA metrics. Hence we recommend a "BUY" on company with a target price of INR 200, implying 41% upside.

Valuation Table:

Market Cap	33,952	Target EV/EBITDA (x)	32
No. of Shares	239.1	FY19 EV/EBITDA	49,827
CMP	142	Less: Debt	1800
Debt	1752.9	Add: Cash	142.93
Cash	12.7	Eq. Shareholder Value	47,884
EV	35,692	No. of Shares	239.1
		Target Price	**200.3**
		Upside	**41%**

Source: Company Data, KRChoksey Research

Peer Valuation:

Forward Earnings

Particulars (INR Mn)	Revenue	EBITDA	PAT	EBITDA %	PAT %	EV/EBITDA
ABB (CY18E)	100383	9965	5236	10%	5.2%	22.4
Siemens (CY18E)	139216	16885	11429	12%	8.2%	22.5
GE T&D (FY19E)	45820	5366	2643	12%	5.8%	15.9
Schneider Elec (FY19)	19710	1557.1	711	8%	3.6%	24.3

Source: Company Data, KRChoksey Research

Current Year Earnings

Particulars (INR Mn)	Revenue	EBITDA	PAT	EBITDA %	PAT %	EV/EBITDA
ABB (CY16)	81403	7125	2998.8	9%	3.7%	31.9
Siemens (CY16)	105631	11376	11744	11%	11.1%	33.8
GE T&D (FY16)	34196	2692.2	775.1	8%	2.3%	34.6
Schneider Elec (FY16)	14026	397.7	-182	3%	-1.3%	95.3

Source: Company Data, KRChoksey Research

Annexure:

Company Background:

Schneider Electric Infrastructure Ltd was incorporated on March 12, 2011 with the name Smartgrid Automation Distribution and Switchgear Ltd. Subsequently, the name of the company was changed to its current name, i.e. 'Schneider Electric Infrastructure Ltd' on December 8, 2011 and a fresh certificate of incorporation consequent to change of name was issued by the Registrar of Companies, Gujarat, Dadar and Nagar Haveli.

The registered office of the company is located at Vadodara, Gujarat. The Company is engaged in the business of manufacturing, designing, building and servicing technologically advanced products and systems for electricity network, including products such as transformers, medium voltage switchgears, protection relays and electricity distribution management systems and software.

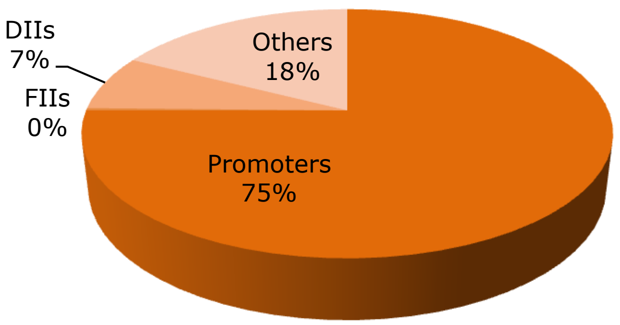
The business of the company comprises of the demerged undertaking that was transferred to it by ALSTOM T&D pursuant to the Scheme of Demerger, which became effective on November 26, 2011. The company has 3 manufacturing facilities in India, i.e. in Vadodara, Kolkata, Chennai and has 4 regional offices and 13 branch/sales offices located across the country. The company's major customers are electrical distribution (utilities) and power generation companies in public as well as private sector and companies in electro-intensive industry particularly oil & gas and metals related.

Management team:

Key Management	Position
Vinod Kumar Dhall	Chairman
Prakash Kumar Chandraker	Managing Director
Sugata Sircar	Director
Ms. Sonali Kaushik	Woman Director
Anil Rustgi	Company Secretary & Compliance Officer

Source: Company Data, KRChoksey Research

Share Holding Pattern:



Top 5 Shareholders:

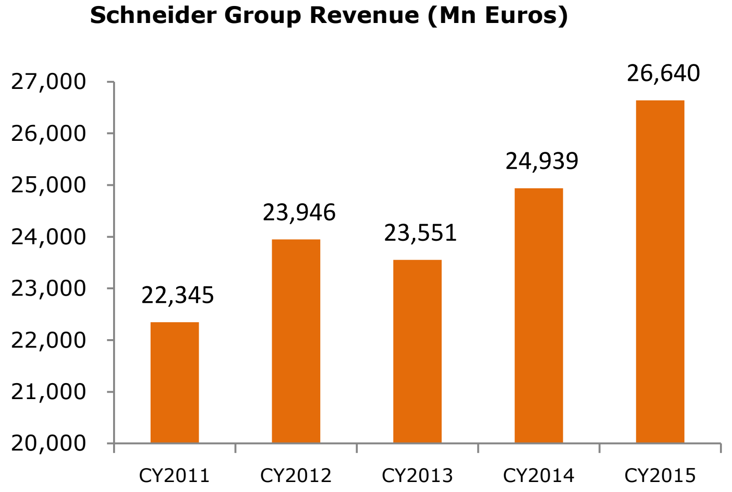
Shareholding Pattern	No. Of Shares	%
Promoter	**179328026**	**75%**
Energy Grid Automation Transformers	168735367	
Schneider Electric Singapore PTE	10592659	
Public	**21713585**	**9%**
Harsham Investment & Trading Co.	9210221	
Reliance Capital Trustee A/C	8611604	
The New India Assurance Co. Ltd.	3891760	
Others	**38256645**	**16%**
Total Shares	**239104035**	**100%**

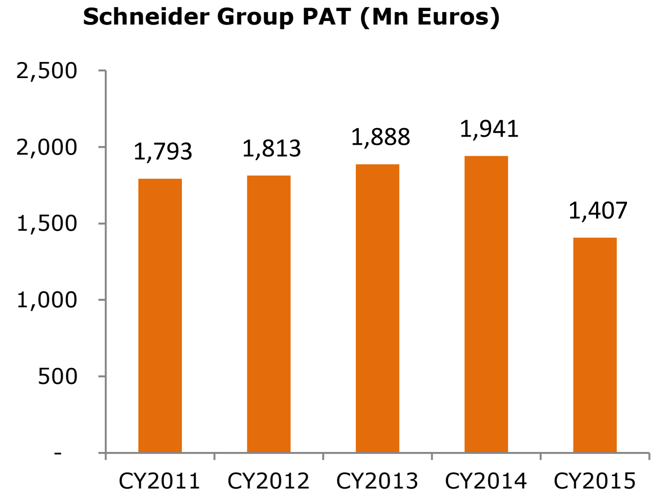
Source: Company Data, KRChoksey Research

Schneider Electric Infrastructure Ltd.

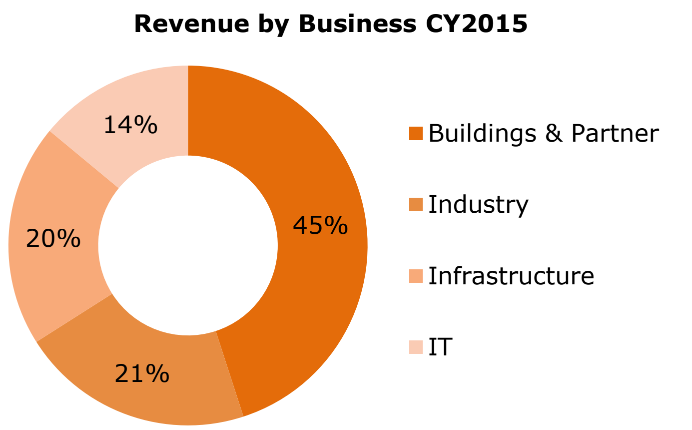
Company's Parent:

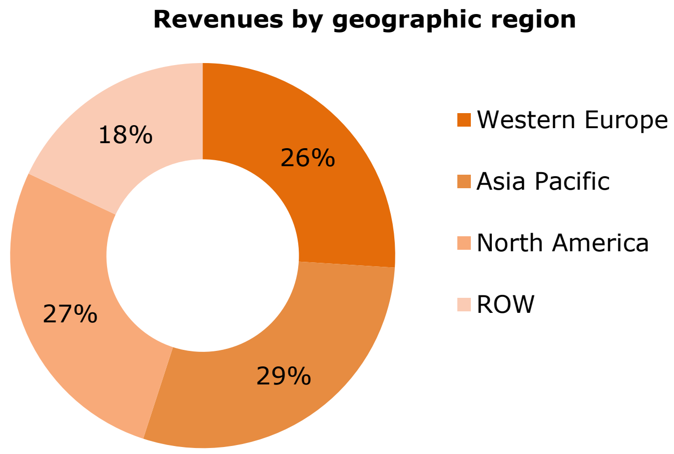
Schneider Electric's products are used everywhere energy is generated, distributed and consumed, from the home to the office, from the city to the grid, and from the manufacturing plant to the cloud. The company employs the phrase "Life Is On" to express and reflect its focus on making products that power—and by extension, empowers—the world, enriching people's lives. From the simplest of switches to complex operational systems, the company's technology, software, and services improve the way consumers use energy in their daily lives and how businesses manage and automate their operations, reducing costs and environmental impact.





Source: Company Data, KRChoksey Research





Source: Company Data, KRChoksey Research

Company's Vision:

The company program **'Schneider is ON'** was set at the start of 2015 around 5 pillars:

1. Do more for the customers to create more opportunities for them, and for Schneider Electric

Key initiatives:

- Commercial transformation (EU coverage/ X-Sell/ Inside sales..etc)
- Improve project execution
- Accelerate booster business growth
- More alignment of supply chain
- Overall customer net promoter score increased + increase in booster businesses

2. Simplify the operations for increased efficiency

Key initiatives:

- Simplify operations
- Mutualize optimally for efficiency
- Align ERP systems
- Streamline/ simplify processes
- Overall savings through simplification exceeded 2015 targets

3. Digitize for customers, for efficiency and simplicity

Key initiatives:

- Connect more customers & partners
- New web deployment
- More active on social media
- Enhance use of CCC mobile app
- Increase the number of connected assets

4. Innovate to support growth

Key initiatives:

- More interaction between R&D and customers
- Shorter development timeline & adherence
- I4I (India for India) product development
- Greater focus on Access to Energy/ BipBop programs

5. "Step Up" people

Key initiatives:

- Build organization capability through development initiatives, coaching, training, etc.
- Improve diversity
- Introduce work place satisfaction/ Well being initiatives
- Connect and engage with people
- Increase in D&I initiatives + improvement in EEI and employee wellbeing score

Schneider Electric Infrastructure Ltd.

Q2FY17 Result update:

Particulars (INR Mn)	Q2FY17	Q1FY17	Q2FY16	Q-o-Q	Y-o-Y
Net Sales	2648	2777	2818	-5%	-6%
Other operating income	22	27	12	-17%	79%
Net Sales & Other Operating Income	**2670**	**2804**	**2830**	-5%	-6%
Total Expenditure	2571	2742	2738	-6%	-6%
(Increase) / Decrease In Stocks	91	-519	-222	-118%	-141%
Purchase of Finished Goods	25	17	-	46%	-
Cost of Raw Materials	1680	2384	2121	-30%	-21%
Operating & Manufacturing Expenses	352	432	437	-18%	-19%
Employee Cost	424	428	402	-1%	5%
PBIDT (Excl OI)	**98**	**62**	**92**	58%	7%
EBITDA Margins (%)	*3.7%*	*2.2%*	*3.2%*	*147bps*	*45bps*
Depreciation	62	62	63.6	0%	-3%
EBIT & Exceptional Item	**37**	**0**	**28**	18250%	31%
Exceptional Items	-21.7	-28.4	0	-24%	-
Other Income	14	3	69	367%	-80%
EBIT	**29**	**-25**	**96.9**	**-215%**	**-70%**
Interest	91	83	122	10%	-25%
EBT	-62	-108	-24.7	-42%	151%
Tax	-	-	-	-	-
PAT	**-62**	**-108**	**-25**	-42%	151%
PAT Margin (%)	*-2.3%*	*-3.8%*	*-0.9%*	*152bps*	*-145bps*
EPS	**-**	**-**	**-**	-	-

Source: Company Data, KRChoksey Research

Key highlights:

- Schneider electric infrastructure Ltd declared its Q2FY17 results with revenue of INR 2670 Mn (which is higher than our expectation of INR 2550Mn) decreased by 6% YoY and 5% Q-o-Q.
- EBIDTA stood at INR 98Mn which is in-line with our estimate of INR 100Mn. EBIDTA margin improved substantially by 45bps Y-o-Y and 147bps Q-o-Q to record a margin of 3.7% benefitting by decline in raw material cost (21% drop Y-o-Y)
- However, company recorded yet another quarter of loss, as losses extended by 151% Y-o-Y led by exceptional items of INR 217Mn, resulting out of employee settlement. As a result company recorded a loss of INR 621Mn in Q2FY17.
- Company's order book stands at INR 10000Mn and average execution period stands at 8 to 18 months. Company is now focusing on profitable growth and only bidding for orders which are profitable
- Orders in Smart cities and Metro projects have started picking up however the process remains slow and lengthy.
- Company doesn't have any capex plan for another 2-3 years and expects INR 100Mn as its maintenance capex going forward.

Schneider Electric Infrastructure Ltd.

Income Statement:

Particulars (INR Mn)	2015	2016	2017E	2018E	2019E
Total Sales	**13105**	**14026**	**14783**	**16785**	**19710**
Total Raw materials	9755	9947	10496	11750	13600
COGS	10024	10270	10836	12102	13974
Personnel Cost	1517	1682	1744	1813	2010
SG&A Cost	1173	981	1005	1091	1281
Other Cost	624	696	710	755	887
EBITDA	**-233**	**398**	**488**	**1024**	**1557**
Depreciation	249	258	255	259	262
Amortization	0	0	0	0	0
Interest & Finance charges	385	428	228	215	180
Other Income	696	106	148	168	197
Extraordinary items	0	0	0	0	0
EBT (as reported)	-171	-182	153	719	1312
Tax	114	0	50	237	433
RPAT	**-286**	**-182**	**102**	**481**	**879**
Extraordinary adj.	40	-19	0	0	0
APAT	**-326**	**-163**	**102**	**481**	**879**
RPAT after pref. div.	-286	-182	-66	314	711
APAT after pref. div.	-326	-163	-66	314	711

Source: Company Data, KRChoksey Estimates

Balance Sheet:

Particulars (INR Mn)	2015	2016	2017E	2018E	2019E
Equity Share Capital	478	478	478	478	478
Reserves	372	190	125	438	1149
Net worth	850	668	603	916	1628
Preference capital	0	1720	1720	1720	1720
Secured loans	0	0	0	0	0
Unsecured loans	3333	1753	1900	1950	1800
Total loans	3333	1753	1900	1950	1800
Capital Employed	**4380**	**4351**	**4439**	**4828**	**5427**
Net block	1946	1838	1683	1524	1362
CWIP	10	75	35	36	75
Investments	0	0	25	50	100
Inventories	2118	2288	2292	2523	2871
Sundry debtors	6909	6695	7088	7906	8910
Cash and bank	545	13	4	3	143
Loans and advances	1449	1491	1589	1826	2168
Total Current assets	11022	10486	10972	12258	14092
Total Current liabilities	9092	8549	8875	9800	11188
Net Current assets	1930	1937	2098	2458	2905
Capital Deployed	**4380**	**4351**	**4439**	**4828**	**5427**

Source: Company Data, KRChoksey Estimates

Cash Flow:

Cash Flow (INR Mn)	2015	2016	2017E	2018E	2019E
PAT	**(286)**	**(182)**	**102**	**481**	**879**
Depreciation & Amortization	263	216	255	259	262
Incr/(Decr) in Deferred Tax Liability	114	-	-	-	-
(Incr)/Decr in Working Capital	(208)	(539)	(170)	(361)	(306)
(Incr)/Decr in Mis. Expense not written off	-	-	-	-	-
Cash Flow from Operating	**(117)**	**(505)**	**188**	**379**	**835**
(Incr)/ Decr in Gross PP&E	(453)	(109)	(100)	(100)	(100)
(Incr)/Decr In Work in Progress	181	(65)	39	(1)	(38)
(Incr)/Decr In Investments	**-**	**-**	**(25)**	**(25)**	**(50)**
(Incr)/Decr in Other Non-Current Assets	133	(7)	(97)	(161)	(226)
Cash Flow from Investing	**(139)**	**(180)**	**(183)**	**(287)**	**(414)**
(Decr)/Incr in Debt	789	(1,567)	154	75	(113)
Dividend	-	-	(168)	(168)	(168)
Other Reserve	286	182	66	(314)	-
Cash Flow from Financing	**789**	**153**	**(14)**	**(93)**	**(280)**
Incr/(Decr) in Balance Sheet Cash	534	(532)	(9)	(1)	140
Cash at the Start of the Year	**11**	**545**	**13**	**4**	**3**
Cash at the End of the Year	**545**	**13**	**4**	**3**	**143**

Source: Company Data, KRChoksey Estimates

Ratios:

Particulars	2015	2016	2017E	2018E	2019E
Growth (%)					
Total Sales	7.8	7.0	5.4	13.5	17.4
EBITDA	-80.7	-270.4	22.7	109.9	52.1
APAT	-62.8	-49.8	-59.8	-577.4	126.8
Profitability (%)					
EBITDA Margin	-1.8	2.8	3.3	6.1	7.9
APAT Margin	-2.5	-1.2	-0.4	1.9	3.6
ROIC	-19.5	3.2	3.5	11.1	16.9
ROE	-32.8	-21.5	-10.3	41.3	55.9
Per Share Data (INR)					
AEPS	-1.4	-0.7	-0.3	1.3	3.0
Reported CEPS	0.3	0.3	1.5	3.1	4.8
BVPS	3.6	2.8	2.5	3.8	6.8
Valuations (x)					
PER (x)	-140.9	-210.7	-538.8	112.9	49.8
PEG (x)	2.2	4.2	9.0	-0.2	0.4
P/BV (x)	54.0	51.5	58.7	38.6	21.7
EV/EBITDA (x)	-211.0	95.3	80.0	38.1	25.0
EV/Net Sales (x)	3.8	2.7	2.6	2.3	2.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Turnover days					
Debtor Days	180.8	177.0	170.2	163.0	155.7
Payable Days	282.2	286.1	266.0	254.5	247.0
Gearing Ratio					
D/E (x)	3.9	2.6	3.2	2.1	1.1

Source: Company Data, KRChoksey Estimates

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