JMI JainMatrix Investments

A quality report by JainMatrix Investments

Schneider Electric Infra Ltd. – A Stronger Struxure

- **Date: 27th Feb 2024**
- **CMP: ₹ 582**

- **Mid Cap with Mkt Cap ₹ 14,000 crores, PE of 65 times**
- **Industry: Power Sector, Equipment and Services**
- **BUY with a target price of ₹ 903 by May 2026, a gain of 55%**

Why SEIL: SEIL makes power and energy management products, for industrial consumers. It includes transformers, medium voltage switchgear and relays, and further they digitally enhance network monitoring, consumption and tracking. Their mission is to be digital partner for Sustainability and Efficiency.

Why Now: 1) SEIL is undergoing a turnaround from loss making to profitable. The debt and valuations appear high, but as recovery continues, improvements will justify the current price levels 2) India's power consumption is growing, and so is demand for SEIL's products and services, as they provide for energy savings, optimization and better asset management 3) SEIL focus is on digitizing and decarbonizing the energy landscape. It should be seen in this Green light.

Key risks: The key risks are 1) Complex structure of SEIL and SEF in India 2) High R&D is required to keep business robust 2) High Debt to Equity and high current valuations 3) Growth by M&A are high risk 4) Competition is present and may intensify 5) Demand - clients must be ready to pay a premium.

Opinion: BUY with a target price of ₹ 903 by May 2026, a gain of 55%.

Here is an investment research report on Schneider Electric Infrastructure Ltd (SEIL).

SEIL – Description and Profile

- Schneider Electric (**SEIL**) is an energy management firm engaged in design, manufacture, build, and servicing of products and systems for electricity distribution in India and internationally.
- SEIL's FY23 Revenues were ₹ 1,777 cr., EBITDA ₹ 167.7 cr. and Profits ₹ 124 cr. These have grown 3%, 22% and 31% over the last 7 years. SEIL has 1,655 permanent employees and workers.
- It has 4 mfg. facilities: Vadodara (2 units), Kolkata (1) and Chennai (1) and 21 offices in India.
- SEIL has origins of a demerged transmission and dist. business unit of Alstom T&D India (formerly known as Areva T&D India) listed on the BSE and NSE in Mar'12.
- SEIL now focuses on mfg of advanced products for electricity, distribution including products transformers, medium voltage switchgear, relays, and automation equipment. These are for industries like electrical energy, water, mariner, oil and gas, mine mineral and metal, construction sector.
- **Parent and Group firms**: Schneider Electric Industries SAS of France (**SEF**) is the holding company, and it has two subsidiaries Schneider Elec IT Business India Pvt. Ltd. (SEITIB), Sch Elec India Pvt. Ltd. (**SEIPL**).
- SEIPL and Temasek Holdings acquired the E&A business of L&T for ₹ 14,000 cr. in 2020 which offers a wide range of electrical products - switchgears, electrical systems, automation solutions, energy mgt. systems and metering solutions. 5,000 employees joined SEIPL, and it has revenue ₹12,349 cr. in FY23.
- SEF has grown significantly through inorganic route i.e. acquisition it has acquired around 60 companies across world including from India, and these are given below in Fig 1.

Acqusition Year	Company	Business
2009	Meher Capacitors	Power factor correction
2010	Zicom Security Systems	Security systems
2011	Digilink	Network connectivity products
2011	APW President Systems	Enclosure systems
2011	Luminous	Power inverters
2020	Larsen & Toubro E&A	Electrical and automation technology

Fig 1- Acquired Indian firms

- SEF is a French MNC founded in 1836 that specializes in digital automation and energy management. It's a Fortune 500 company, publicly traded on the Euronext Exchange, and is a component of the Euro Stoxx 50 index. In FY 2022, SE posted revenues of €34.2 b (₹3.04 lakh cr.) and profits of €3.53 B (₹ 31k cr.) with total number of employees at 162,339.
- Currently, SEF group has 30 factories in India, this is the company's third-largest market and the largest talent hub with 37,000 employees. India is also the R&D hub for the group with 6,000 employees working on R&D projects to build solutions locally for India and the world. India is also among the four hubs of innovation for the company along with the US, France, and China.
- SEIL Leaders: Udai Singh (MD-CEO), Namrata Kaul (Chairperson) and Preeti Gupta (CFO).
- SEIL shareholding pattern: Promoter group 75%, FII 1.85 %, DII 2.26 % and Retail 20.88 %. See Fig 4d.

Business Model, News and Updates of SEIL

- Schneider Electric SE has lined up investments of ₹ 3,200 cr. by 2026 to increase its India footprint. These will expand the operations in 9 states adding 1.2 m. sq.ft. and help make India a global mfg. hub.
- Schneider Electric is reportedly preparing to relist its Indian subsidiary SEIPL. It had been delisted previously, and relisting was pending the result of litigation.

Fig 2a - Product Offerings - EcoStruxure™

- As a major focus area, the energy management firm has set a target to become net-zero in its operations by 2030, and achieve an end-to-end carbon neutral value chain by 2040.
- SEIL runs its energy management programs through a subscription model. Fig 2a showcases the

EcoStruxure™Architecture with product offerings, interlinked analytics and app service offerings.

- SEIL launched EcoCare service membership in India. This service provides an exclusive level of access to industry and critical facilities; buildings the system expertise and empowers businesses to achieve higher performance, resilience, safety, and environmental sustainability goals across their entire equipment lifecycle. EcoCare minimizes downtime with faster response time to on-site intervention and 24/7 remote monitoring and alarming. It reduces planned downtime through a condition-based maintenance approach, enabling dynamic maintenance scheduling. Extend asset lifecycle and avoid carbon emissions, contributing to the organization's sustainability goals.
- Preeti Gupta was appointed Group CFO. She has 20 yrs. workex in FMCG, Consulting & Industrials.
- SEIL and Arcelor Mittal have announced strategic partnership to develop advanced training faculties and programs in smart mfg., to equip young individuals with skills for future of mfg. and automation.
- Siemens is offering similar products as SEIL.
- The key Business segments for SEIL are - **Fig 2b – Key Business Segments**

Power Industry in India

- India is the #3 producer and consumer of electricity worldwide, with an installed power capacity of 426 GW as of Nov'23. India was #4 in wind power and solar power, and #4 in renewable energy by '21.
- Total FDI inflows in the power sector reached US$ 17 b over the period Apr'00-Sep'23.
- Power consumption in India in FY23 logged a 9.5% growth to 1,503 billion units (BU), as compared to 1,374 BU in FY22. Growing population, higher electrification and per-capita usage will provide impetus. The peak power demand stood at 243 GW in Nov'23, India is witnessing a deficit in peak demand. Demand outstrips supply by about 7.5%. Various reforms being undertaken are positively impacting India's power sector. In the wake of the surging domestic coal production, the country's power sector is becoming increasingly stable.
- Per capita electricity consumption in India grew at 15.2% CAGR from 1985-'22, reaching 1,255 KWh. However it is quite low on a global comparison. As of Mar'23, 2.86 crore households have been electrified under various GoI schemes.
- The source of power for India are thermal 56.25%, Renewable 31%, Hydro 11% and Nuclear 1.75%.
- By 2030, India aims to reduce the emissions intensity of its GDP by 33%, to end up at 35%, and increase the share of non-fossil fuels to 40% of the total electricity generation capacity.
- To create potential for domestic mfg. and developers, the Government will auction 40 GW of renewable energy projects, including 30 GW solar and 10 GW wind, every year until 2028. 70% of equipment used for generation of wind power is made in India.
- To encourage rooftop solar (RTS) throughout the country, Ministry New and Renewable Energy has developed a National Portal wherein any residential consumer from any part of the country can apply for rooftop solar without waiting for Discom to finalize tender and empanel vendors.
- To decarbonise energy consumption, India needs a 30-fold increase in renewable energy, 30X increase in nuclear energy and doubling of thermal, to make 70% of energy carbon-free. (Source IBEF)

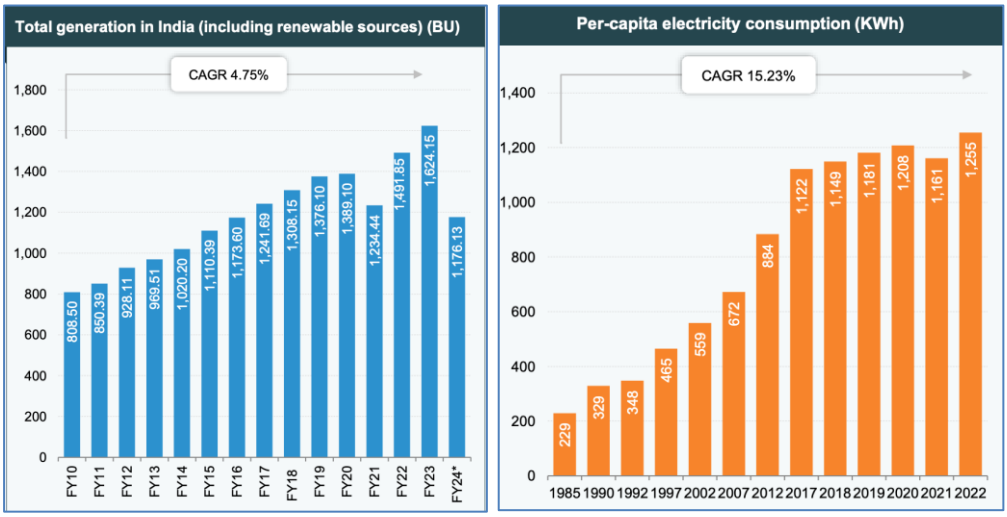


Fig 3- Total Power generation in India / Fig 3b- Per-capita electricity consumption in India

- As per the Central Electricity Authority (CEA) estimates, by 2029-30, the share of renewable energy generation would increase from 18% to 44%, while that of thermal will reduce from 78% to 52%.
- By 2031, the current installed nuclear power capacity is expected to rise from 7,480 MW to 22,480 MW because of the progressive completion of projects under construction and accorded sanction.

Stock Performance and Evaluation

- The stock had a high of ₹ 642 (Feb '24) and a 5 year low ₹ 60 (Mar'20) see price history in Fig 4a.
- It's clearly in a strong recovery. The Revenues, EBITDA & PAT has grown by 3%, 22% and 31% CAGR resp. over 7 years. EPS rose from ₹ 1.16 in FY22 to ₹ 5.17 in FY23. The market cap of SEIL is ₹ 13,200 cr.
- The Quarterly financials of SEIL (see Fig 4b), reveal the weakness till Jun'21 and recovery thereafter, margins improvement and turning profitable after extended loss making.
- The Cash Flow of SEIL, Fig 4c, tells us the operating cash flow has been increasing and was positive for 2 years, after being negative 3 years before this. We can also see significant Capex investments being made. This is a positive sign as the firm is planning for new product lines.
- Shareholding pattern: Promoter group 75%, FII 1.85%, DII 2.26 % and Retail 20.88 %. See in Fig 4(d).

Fig 4a Price History

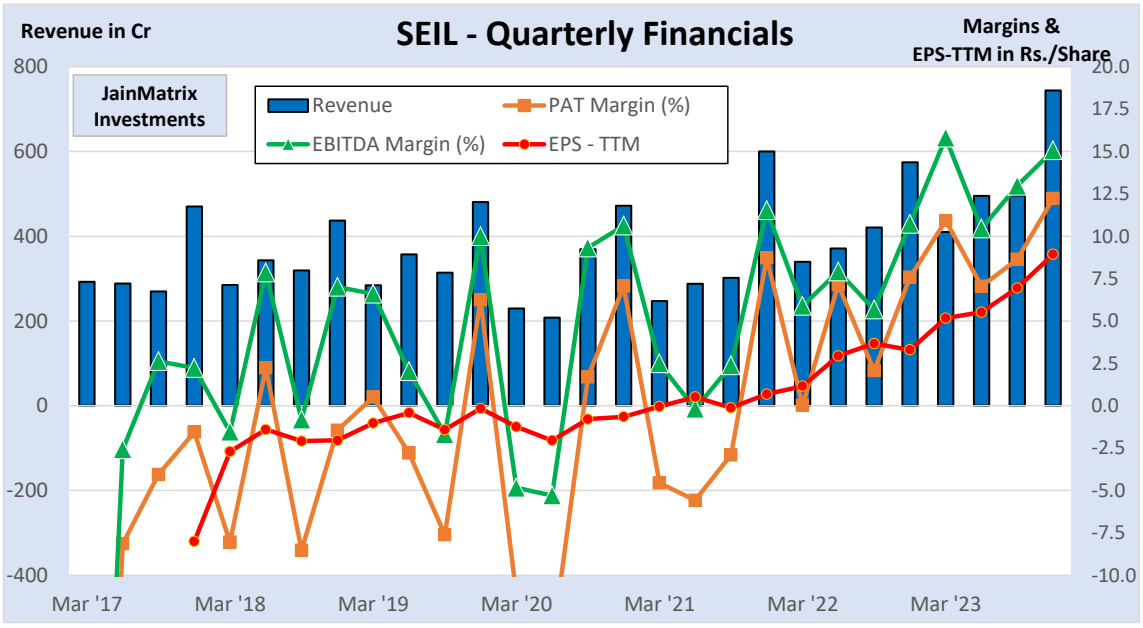
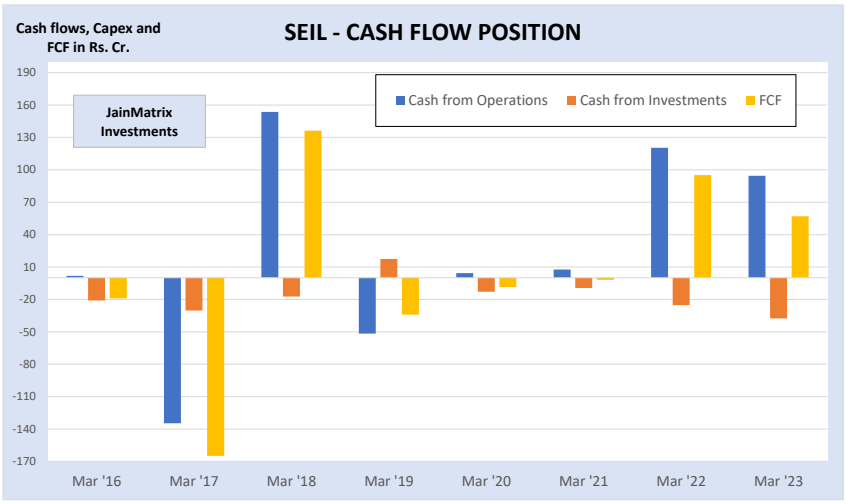
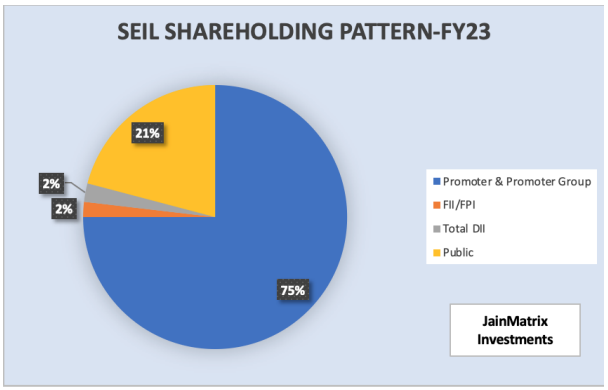


Fig 4b - Quarterly Financials / Fig. 4c – Cash flow / Fig 4d – Shareholding Pattern





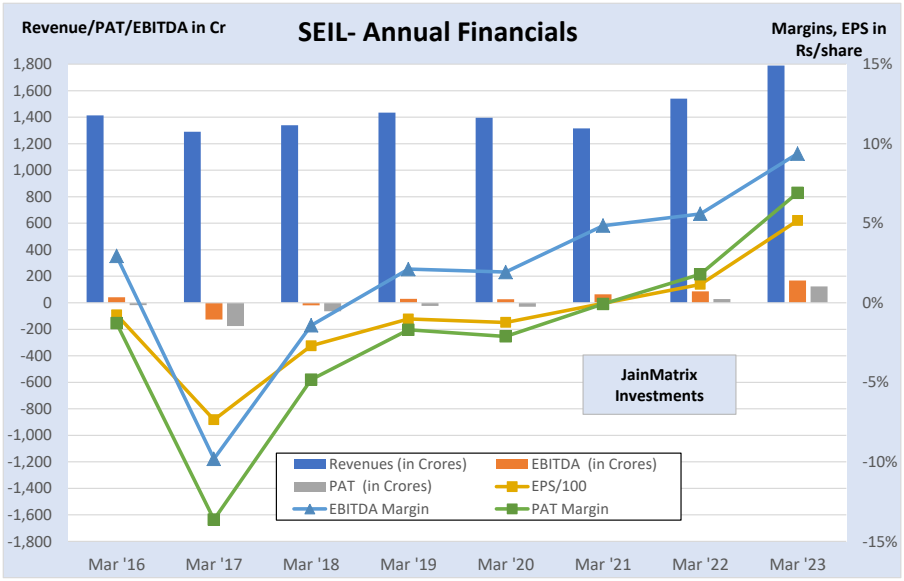


Fig 4e – Annual Financials

- Annual Financials in Fig 4e shows gradual increase in revenue, margins and profitability. SEIL recently posted positive EPS after a long time which resulted in a surge in share price. The EPS has risen from 2.5 (FY21) to 9 in FY23. EBITDA margins have gradually increased from 3% in FY16 to 15% in FY23.
- Fig. 5a shows the share price and PE chart. The historical range of PE is 30 to 70. The current PE ratio of the company is 65 which indicate high valuations. However, we can see in Fig 5b that EPS has been in a rapid rising channel, which may justify the high valuations.

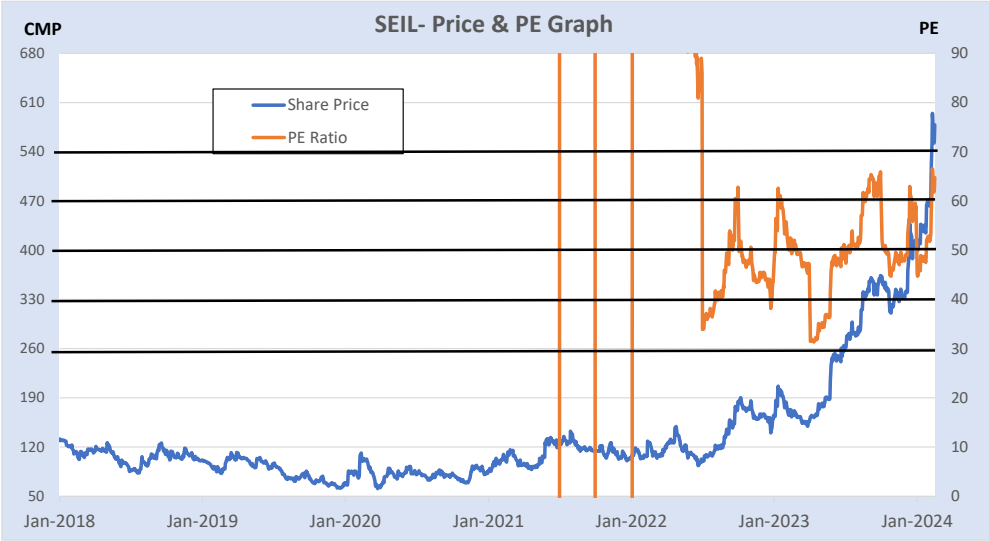


Fig 5a - Price and PE Chart

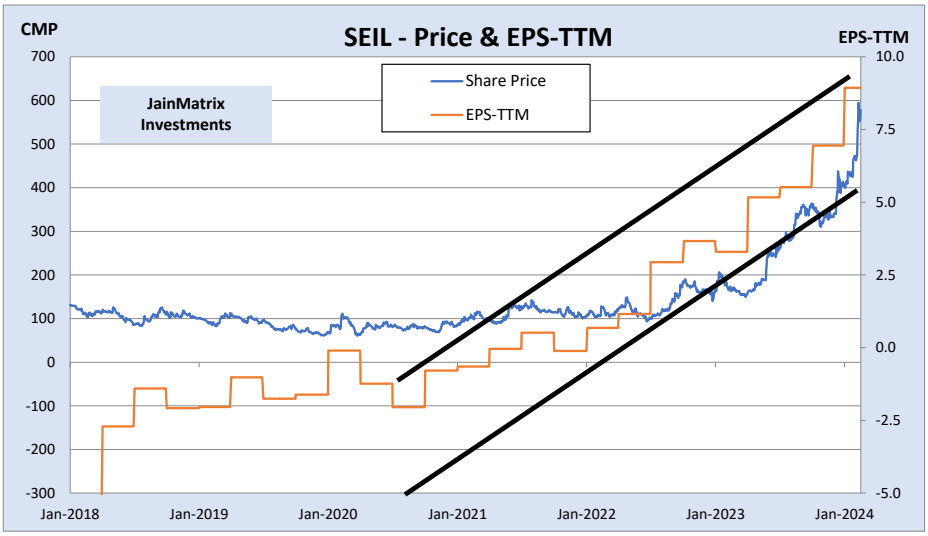


Fig 5b - Price and EPS Chart

- The Financial Metrics are presented in Fig 5c. At the end of FY23, SEIL has a RoE of 265%, RoCE of 27.58% and RoA of 9.12%. RoCE and RoE appear to be at all-time highs. RoA has increased from -1.41 % (FY16) to 9.12 (FY23), so SEIL is increasing profits with each investment rupee it spends.
- The current ratio of SEIL is 1.22 which indicates that their liquidity is comfortable. Inventory Turnover Ratio which had a huge fall from FY16 to FY23. The asset turnover ratio in FY23 is 1.41 a significant decrease from 112 in FY21. This fall may have been due to a merger of factories with SEIL. Increase in D/E from 2.62 in FY16 to 6.63 in FY23. D/E is magnified because of low equity base.
- Several ratios appear large as the equity share capital of SEIL is small at ₹ 47.82 cr. We feel this is low, and SEIL should raise the ESC by means of Bonus or additional issue of capital, to support growth.
- Most financial and investor parameters show good improvement over last 5 years.

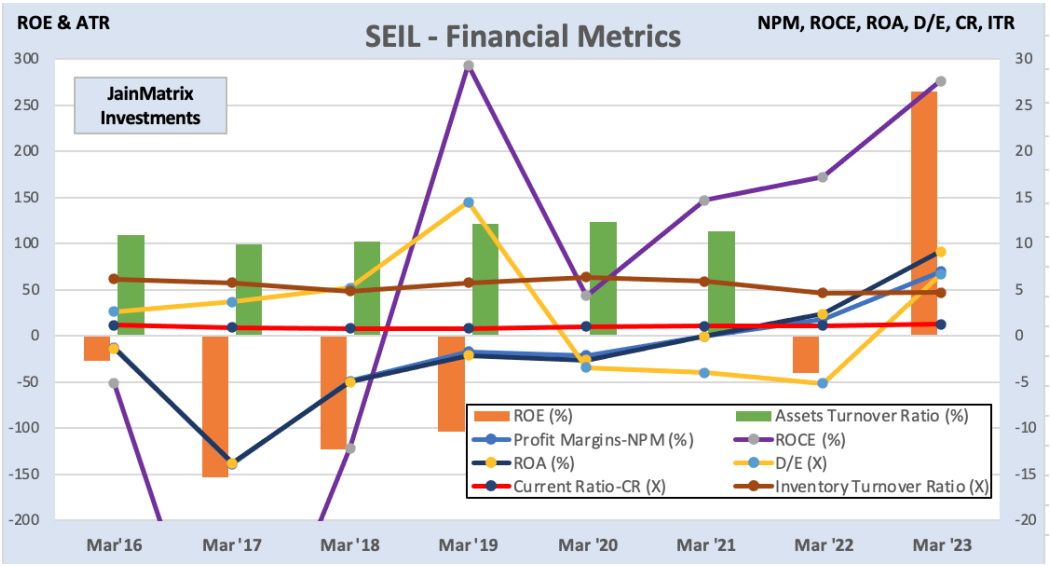


Fig. 5c – Financial Metrics

- Orders booked by SEIL are at ₹ 1,358.6 cr., up 39% YoY and are looking healthy.

Overall, the picture that emerges is SEIL is rebounding from losses and focused on improving margins.

Benchmarking and Financial Projections

Particulars	Schneider Electric	Siemens	ABB	Transformer & Rectifiers	BOSCH	Bharat Bijlee	D-link	HFCL
Sales (Rs. in Cr's.)	1,777	19,553	8,567	1,380	14,929	1,418	1,180	4,743
EBITDA (Rs. in Cr's.)	167.71	2,984	1,481	115	1,824	120	121	666
Net Profit (Rs. in Cr's.)	124	1,962	1,025	42	1,426	83	86	318
Market Cap (Rs. in Cr.)	13,198	1,55,660	96,220	4,317	79,819	3,306	1,026	14,052
PE-TTM (x)	64.7	77.7	79.3	309.0	47.4	30.0	12.0	48.0
Price to Book Value (x)	60.0	11.9	17.9	11.3	6.9	2.2	2.8	3.9
EBITDA Margin (%)	9.4	15.3	13.3	9.4	15.3	10.3	10.3	14.0
Net Profit Margin (%)	7.0	10.0	11.9	3.0	9.5	5.9	7.3	6.7
3 Yr CAGR Sales (%)	13.3	40.2	8.2	40.4	23.2	23.59	26.30	11.0
3 Yr CAGR Profit (%)	104.4	59.7	84.2	541.2	56.1	35.0	56.6	15.5
RoCE (%)	27.6	19.4	20.9	22.0	16.9	9.2	30.4	17.5
Return on Equity (%)	264.9	8.8	20.6	10.4	13.0	6.0	22.8	9.7
Debt to Equity Ratio (x)	6.6	0.0	0.0	1.0	0.0	0.2	0.0	0.2
Dividend Yield (%)	0.0	0.2	0.1	0.1	1.8	0.7	1.7	0.2

We present a benchmarking exercise of SEIL with comparable firms, see **Fig 6a Benchmarking**

- Valuations of PE are fair, but PB is high for SEIL.
- EBITDA margins are low but profit margin is fair, a positive. Sales growth and profits growth is good.
- When compared with its peers, RoCE and ROE of SEIL are excellent, the investments, it's a positive.
- SEIL dividend is low among the peers, as SEIL is investing in its operations and growth.
- D/E appears high but a closer look at interests costs indicate these are low interest loans.

Overall, the picture is of SEIL as a company that is moving firmly from losses into profits. The debt and valuations appear high, but as recovery continues, improvements will justify the current price levels.

Financial Projections

We project the financials of SEIL for 3 years, see Fig 6b, based on several assumptions – 1) Revenues to grow by 15-20% based on management guidance 2) Operating and profit margins to improve over next 2-3 years 3) No major M&A or equity event over next 2-3 years.

	Mar '21	Mar '22	Mar '23	Mar '24	Mar '25	Mar '26
Sales Turnover - crores	1,316	1,540	1,789	2,248	2,698	3,102
EBITDA - crores	64	86	168	292	378	465
Net Profit - crores	(1)	28	124	202	270	341
EPS - Rs/share	(0.0)	1.2	5.2	7.1	8.5	11.3
PE (at current Price)			112.6	68.8	51.6	40.8

Fig 6b Financial Projections

Strengths

- As a MNC with a rich history in India and globally, Schneider is seen as a technology leader. It has impressive cutting edge technology products for digital energy management, drawn from its R&D centers, technologies developed over the years and M&A.
- SEIL is already a pioneer in transformers, switch gears and panels. With its EcoStruxure and EcoCare platforms, and IoT enabled system architecture, it adds a data, analytics and service layer above it, making it more useful. These services add value and more difficult to develop by competition.
- GoI is undertaking a massive push in power, infrastructure, railways & metros and power demand has grown 6-8% every year for 2-3 years. We can expect increase in demand for SEIL products.
- SEIL has in the past 3 years moved from losses to profits, grown revenues, launched new products and has gathered momentum. Its financial metrics are improving rapidly, making it attractive.
- SEIL has been hiring at senior management and other levels, anticipating high demand and growth.
- Emerging sectors like EV, AI, data centers and cloud tech. make the market attractive for SEIL suite.
- As we transition towards a decarbonized and decentralized energy landscape, the emphasis is intensifying on enhancement of power and grid reliability, efficiency, flexibility, and collaboration.

Weaknesses and Risks

- The Debt-to-equity ratio of 6.6 is high, but this is due to low equity base. Loans too are at low interest.
- The share price range for last 1 year is ₹ 145.6 to ₹ 642.6, so share price has risen 4X this year. Valuations may be high already, so upsides may be relatively limited in future.
- Businesses must be ready to pay a premium for these advanced IoT products and services.
- Similar technology is being offered by competitors, so this is a threat to SEIL growth.
- Parent company Schneider Electric has made over 60 acquisitions including in India. Mergers can be complex, integration is a challenge and they can fail too. The costs of acquisitions too can be high.
- SEIL today has a complex structure of foreign ownership, several group companies presence in India and overlaps with them across products and services.
- SEIL today has high debt but low interest costs due to long term loans from group companies. Loans are at interest rates from 5.67% to 7.32%, which are low compared to market rates. Rising interest rates could affect the cost structure and health of SEIL.
- Group company SEIPL may be listed in a few months. This may affect SEIL pricing and valuations, as some of the products and solutions may overlap. Eventually, a merger with SEIPL too is possible.
- Investment in R&D is important to sustain in this sector.
- Imitation of the counterfeit and low quality product is also a threat to Schneider Electric's products, particularly in manufactured goods available through distributors.
- SEIL has many products that have to be customised as per client request, this requires more employee effort than ready to sell products, and with a longer sales cycle.

Opinion, Outlook and Recommendation

- SEIL has been present in India as a listed entity for over 10 years. However, in the last 2-3 years, it is experiencing a series of beneficial events.
- The GoI has embarked on a massive infra and electrification push in the economy, raising generation capacities (more renewables), transmission and distribution across the country. India is undergoing an electrification push, across passenger vehicles, railways and homes. In addition, renewables like solar too are being encouraged.
- At the same time SEIL has put together its financial act, and looks to be emerging from several years of losses and high costs structure. SEIL has been running into losses for last few years currently it has turned profitable which indicates a comeback, recovery and better prospects ahead.
- SEIL has also launched a number of power management products for several industries, adding a digitalization and analytics layer. The economy is recovering rapidly post covid of 2020, and we are seeing good power demand, and high power costs and expensive equipment means companies are requiring quality equipment like those offered by SEIL.
- SEIL already has a good brand image and high recognition, and this is an asset.
- The key risks are 1) Complex structure of SEIL and SEF in India 2) High R&D is required to keep business robust 2) High Debt to Equity and high current valuations 3) Growth by M&A are high risk 4) Competition is present and may intensify 5) Demand - clients must be ready to pay a premium.
- BUY with a target price of ₹ 903 by May 2026, a gain of 55%.

Disclaimer and Notes

The target price assumption is a PE of 80 times. The industry average PE is reported as 81 times. Due to recent return to profitability, the PE discovery for SEIL is unfolding currently.

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