

SCHNEIDER ELECTRIC INFRASTRUCTURE LTD.

Strong quarter, continuing its strong momentum

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Schneider Electric Infrastructure Ltd (SEIL) witnessed a strong quarter continuing with its journey of consistent performance. It remained better than anticipated on all fronts with revenues/EBITDA and PAT growing at 33.3%/71%/29.4% including exceptional items in Q1FY23 while margins at 10% improving 220bps YoY on better product mix and normalizing RM cost. SEIL continued its momentum and remained in the positive territory for the seventh consecutive quarter with consistent profitable growth in last seven quarters. The order inflow during the quarter remained strong and notched up higher by 21.4%. Management indicated that there has been good momentum in orders across all segments including its emerging segments in Industry & Building, Cloud & service provider. The overall order backlog too improved and stands at ₹11.2bn providing healthy revenue visibility.

Management remains positive on the business outlook across its traditional (Power & Grid, Metals, Minerals & Mining and Mobility) and emerging segments (E-Mobility, Industry & Building, cloud & service provider and renewables) providing more avenues for digitization and expects momentum to continue in tandem with high frequency data like IIP, GFCF which reflects on the overall business it operates in. SEIL has been receiving breakthrough orders across its Ecostruxure platform be it newer initiatives like Ecostruxure Transformer Expert which is all in one easy to deploy disruptive IoT sensor & software analytics to monitor the health of transformers and taking corrective measures well in time to improve efficiency, avoid revenue loss due to unplanned downtime and lastly less dependency on human resources. 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 service growth recurring business in the long run.

SEIL on its way forward plans to 1) Strategic tie ups with OEMs and major contractors (EPCs) 2) Provide complete digital & cyber-secure solutions. Overall strategic levers which SEIL plans to take forward are 1) Accelerated Partner Growth (Distributor & Panel Builder) 2) provide more digital services 3) Rapid growth in emerging segments (Industry & Building, Cloud & Service Provider). SEIL remains well positioned across its core segments and adequate digitalization opportunities with positive outlook ahead. Further, company's performance has been consistent for FY22, FY23 and Q1FY24 wherein execution has remained strong and expects it to continue with strong order book and pipeline ahead.

Key Financials	FY21	FY22	FY23	FY24E	FY25E
Total Sales (₹ mn)	12,971	15,303	17,772	20,722	24,484
EBITDA Margins (%)	4.9	5.6	9.4	9.5	9.7
PAT Margins (%)	(0.1)	1.8	7.0	6.5	6.5
EPS (₹)	-	1.2	4.5	5.6	6.7
P/E (x)	-	262.5	69.5	56.3	47.2
P/BV (x)	-	208.5	49.9	26.4	16.9
EV/EBITDA (x)	126.2	92.9	47.6	40.5	33.3
RoE (%)	-	139.3	132.1	61.4	43.8
RoCE (%)	11.8	14.6	28.0	27.4	28.2

Rating	BUY
Current Market Price (₹)	315
12 M Price Target (₹)	365
Potential upside (%)	16

Stock Data

Sector :	MNC
FV (₹) :	2
Total Market Cap (₹ bn) :	75
Free Float Market Cap (₹ bn) :	18
52-Week High / Low (₹)	323 / 116
12M Avg. Dly Traded Volume (in lakh)	13
BSE Code / NSE Symbol	534139 / SCHNEIDER
Bloomberg :	SCHN IN

Shareholding Pattern

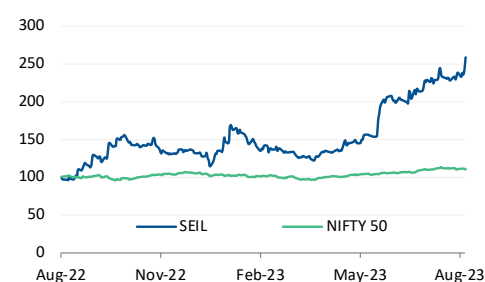
(%)	Jun-23	Mar-23	Dec-22	Sep-22
Promoter	75.00	75.00	75.00	75.00
FPIs	0.67	0.48	1.00	1.01
MFs	1.43	1.26	1.28	1.47
Insurance	0.52	0.32	0.36	0.43
Bodies Corporate	3.01	2.73	2.71	2.37
Others	19.37	20.21	19.65	19.72

Source: BSE

Price Performance

(%)	1M	3M	6M	12M
SEIL	11.9%	66.0%	81.9%	158.8%
Nifty 50	-0.1%	6.2%	8.8%	10.0%

* To date / current date : August 11, 2023

SEIL vs Nifty 50

Overall company remains optimistic in the short to mid-term with support from the government in the form of investment, reforms and policies. Considering the strong Q1FY24 performance we have tweaked our estimates and remain positive ahead and expect the momentum to continue. Hence, we maintain BUY with a revised TP of ₹365.

Q1FY24 Summary

Schneider Electric Infrastructure Ltd (SEIL) witnessed a strong quarter and PAT remained in the positive territory for the seventh consecutive quarter. Revenues improved 33.3% YoY (Services-11%, Transactional is 24% and system is 65% in which equipment is 37%, project -10% and IG -18%) while gross margins at 36.3% were higher by +243bps YoY as RM cost normalization and better mix (+266bps YoY for FY23). EBITDA improved 71% and EBITDA margin improved 220bps to 10% which were better than estimates. Higher operating leverage led to APAT at ₹349 mn (+151.3% YoY excluding exceptional items and 29.4% including it). Order inflow at 4.5bn was higher by 21.4% (Equipment-43%, Project-23%, Transaction-20% and Services-14%) driven by good momentum in orders in all segments. Overall order backlog at ₹11.2bn (Equipment-47%, Project-19% Transaction-18% and Services-16%) providing healthy revenue visibility ahead.

Outlook and Valuation

Business momentum remains positive across its traditional and emerging businesses and we expect this to continue as core data improves which reflects on the overall business it operates in with adequate digitalization opportunities and positive outlook ahead. Further, company's performance has been consistent in FY22, FY23 and Q1FY24 wherein execution has remained strong and expects it to continue with robust order book and pipeline ahead with focus of management on collections. Overall company remains optimistic in the short to mid-term with support from the government in the form of investment, reforms and policies. Considering the FY23 performance we have tweaked our estimates up (margins) accordingly and remain positive ahead and expect the momentum to continue. Hence, we maintain BUY with a revised TP of ₹365.

Exhibit 1: Quarterly performance

(₹ mn)	Q1FY24	Q1FY23	YoY(%)	Q4FY23	QoQ(%)
Revenue	4,953	3,715	33.3	4,105	20.6
Growth (%)					
EBITDA	495	289	71.0	610	(18.9)
Margin (%)	10.0	7.8	220 bps	14.9	-490 bps
Depreciation	51	49	4.9	51	(0.6)
Finance Cost	118	107	10.2	143	(17.9)
Other Income	23	5	363.1	39	(41.1)
PBT	349	139	151.3	454	(23.2)
PAT	349	139	151.3	454	(23.2)
Adjusted PAT	349	139	151.3	454	(23.2)
Pat Margin(%)	7.1	3.7	330 bps	11.1	
Extraordinary income	(6)	126	-	(6)	-
Reported PAT	343	265	29.4	448	(23.5)
Adjusted EPS	1.4	1.1	29.4	1.9	(23.5)

Source: Company, LKP Research

Exhibit 2: Market Outlook

Power & Grid

- Investment of 3400k Cr to meet 2032 energy targets & power demand
- Investment of 15000 Cr PLI scheme to promote setting up of Grid scale battery storage


Mobility

- Huge investments in PV Solar wafer plant
- Large capex in Li-ion manufacturing plants by Exide, Ola, etc.
- Strong Push by GOI for Vande Bharat trains


Industry & Building

- Oil refineries are aggressively working towards green energy
- Warehouse fleet management adaption and conversion to EV


Metals, Mining & Minerals

- Steel sector has been vibrant and is growing at a CAGR of about 6%
- Focus on digitalization, automation & new technology


Cloud & Service Provider

- Colo & Hyperscale investments from non-traditional enterprises
- Market is moving towards tailor block solutions from unique engineered solutions

Life Is On

Schneider
 Electric

Source: Company, LKP Research

Exhibit 3: Ecostruxure Transformer Expert

ETE is all-in-one and easy-to-deploy disruptive IoT sensor & software analytics to monitor the health of oil transformers

Benefits


Assess, track and forecast insulation state and lifetime



Improve decision making



Analyse short-term and long-term risks



Optimise transformer fleet management


Why Assessing Transformer Health is Critical?


Each Transformer caters to thousands of customers' needs or large industrial plant, data centre, hospital, or other critical operation



Failure can be highly disruptive to businesses and homes, as well as affecting safety

Challenge with measuring Transformer Health

Dynamic conditions inside Active transformer are complicated by


 Nature of the oil
 Age | Pollutants


Paper quality


 Affect of heat on paper
 & oil

 Moisture movement through
 layers of paper

Life Is On

Schneider
 Electric

Source: Company, LKP Research

Exhibit 4: Future of Services : Digital Transformation

Future of Services

Digital Transformation

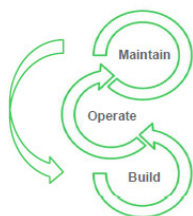
Demand Drivers

Reduced efficiency of equipment
Increase longevity through predictive maintenance

Lost revenue due to unplanned downtime
Digitalize operations for resiliency

Unavailability of skilled resources
Reduce dependency on human resources/self owned resources

Capex to Opex



EcoStruxure Transformer Expert is a holistic offer & an innovative digital service that enhances predictive maintenance capabilities

Our Win



Customer Requirement

- Visibility of health of Transformer, i.e. Temperature, moisture content etc.
- Tracking of Partial Discharge issue

Our Solution

- 66/11kV, 40 MVA Power Transformers
- EcoStruxure Transformer Expert + Hydrogen sensor

Key Highlights

- Successful deployment creating scope for more business

Life Is On

Schneider
 Electric

Source: Company, LKP Research

Exhibit 5: Profit and Loss Statement - Consolidated

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Total Income	12,971	15,303	17,772	20,722	24,484
Raw material Cost	8,963	10,814	12,085	14,112	16,674
Employee Cost	1,847	2,104	2,359	2,715	3,183
Other expenses	1,524	1,525	1,651	1,927	2,253
Total operating Expenses	12,334	14,443	16,095	18,754	22,109
EBITDA	638	861	1,677	1,969	2,375
<i>EBITDA Margins(%)</i>	<i>4.9</i>	<i>5.6</i>	<i>9.4</i>	<i>9.5</i>	<i>9.7</i>
Depreciation & Amortisation	221	173	185	251	272
EBIT	417	688	1,492	1,718	2,103
Interest	482	485	530	515	469
Other Income	185	99	122	135	140
Recurring PBT	120	302	1,083	1,337	1,774
Add: Extraordinaries	(130)	(26)	153	-	-
PBT	(10)	276	1,236	1,337	1,774
Less: Taxes	-	-	-	-	177
Less: Minority Interest & Share in associates	-	-	-	-	-
Share of Associate	-	-	-	-	-
Net Income (Reported)	(10)	276	1,236	1,337	1,597
Adjusted Net Income	(10)	276	1,236	1,337	1,597

Exhibit 6: Balance Sheet

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Assets					
Total Current Assets	8,416	8,564	10,211	11,674	14,039
of which cash & cash eqv.	229	361	196	184	286
Total Current Liabilities & Provisions	6,073	6,351	7,371	8,896	10,293
Net Current Assets	2,343	2,214	2,840	2,778	3,746
Investments	-	-	-	-	-
Net Fixed Assets	2,998	3,085	3,199	4,448	4,677
Capital Work-in-Progress	77	48	140	140	140
Goodwill					
Total Assets	5,418	5,347	6,179	7,366	8,563
Liabilities					
Borrowings	5,382	4,985	4,668	4,518	4,118
Deferred Tax Liability	-	-	-	-	-
Minority Interest	-	-	-	-	-
Equity Share Capital	478	478	478	478	478
Reserves & Surplus	(443)	(117)	1,033	2,370	3,967
Net Worth	35	361	1,511	2,848	4,445
Total Liabilities	5,418	5,347	6,179	7,366	8,563

Exhibit 7: Key Ratios

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Per Share Data (in ₹)					
AEPS	0.0	1.2	4.5	5.6	6.7
CEPS	0.9	1.9	4.7	6.6	7.8
BVPS	0.1	1.5	6.3	11.9	18.6
DPS	-	-	-	-	-
Growth Ratios (%)					
Total Revenues	(6.3)	18.0	16.1	16.6	18.2
EBITDA	136.5	35.0	94.8	17.4	20.6
PAT	-	-	347.6	8.2	19.4
AEPS	-	-	347.6	8.2	19.4
CEPS	-	113.2	148.5	42.4	17.6
Valuation Ratios					
P/E	-	262.5	69.5	56.3	47.2
P/BV	-	208.5	49.9	26.4	16.9
EV / EBITDA	126.2	92.9	47.6	40.5	33.3
EV / Sales	6.2	5.2	4.5	3.8	3.2
Operating Ratio					
Raw Material/Sales (%)	69.1	70.7	68.0	68.1	68.1
Other exp/Sales (%)	11.7	10.0	9.3	9.3	9.2
Effective Tax Rate (%)	-	-	-	0.0	10.0
NWC / Total Assets (%)	39.0	34.7	42.8	35.2	40.4
Inventory Turnover (days)	62.0	53.8	61.1	60.0	62.0
Receivables (days)	121.0	108.4	112.1	112.0	112.0
Payables (days)	120.4	109.5	111.0	111.0	112.0
D/E Ratio (x)	-	13.8	3.1	1.6	0.9
Return/Profitability Ratio (%)					
RoCE	11.8	14.6	28.0	27.4	28.2
RoNW	-	139.3	132.1	61.4	43.8
Dividend Payout Ratio	-	-	-	-	-
Dividend Yield	-	-	-	-	-
PAT Margins	(0.1)	1.8	7.0	6.5	6.5
EBITDA Margins	4.9	5.6	9.4	9.5	9.7

Exhibit 8: Cash Flow Statement

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
PBT	(10)	276	1,236	1,337	1,774
Depreciation	221	173	185	251	272
Chng in working capital	(765)	274	909	50	(866)
Cash flow from operations (a)	76	1,204	946	2,364	1,511
Capital expenditure	(1,023)	(204)	(392)	(1,500)	(1,000)
Free cash flow	(947)	1,000	554	864	511
Chng in investments	-	-	-	-	-
Other investing activities	(96)	(254)	(376)	(1,500)	(500)
Cash flow from investing (b)	(94)	(253)	(376)	(1,500)	(500)
Dividend paid (incl. tax)	-	-	-	-	-
Interest paid	(289)	(268)	(372)	(515)	(469)
Others	(26)	2	(67)	(355)	(435)
Cash flow from financing (c)	108	(818)	(706)	(870)	(904)
Net chng in cash (a+b+c)	90	133	(136)	(6)	107
Closing cash & cash equivalents	229	361	196	184	286

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