

VISIT NOTE

MID CAP

Share Data

Reuters code	SEIN.BO
Bloomberg code	SCHN IN
Market cap. (US\$ mn)	524
6M avg. daily turnover (US\$ mn)	0.5
Issued shares (mn)	239

Performance (%) 1M 3M 12M

Absolute	7	(3)	(1)
Relative	4	(14)	(16)

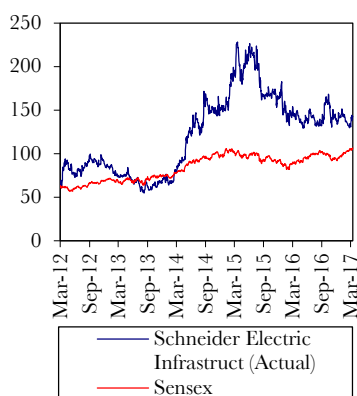
Valuation Ratios

Yr to 31 Mar	FY14	FY15	FY16
EPS (Rs)	(3.7)	(0.7)	(0.8)
PER (x)	NA	NA	NA
PBV (x)	4.8	3.6	10.0
Dividend/Yield (%)	NA	NA	NA
EV/Sales (x)	1.9	4.1	2.6
EV/EBITDA (x)	NA	NA	88.3

Major Shareholders (%)

Promoters	75
MFs	4
BFSI's	3
Public & Others	17

Relative Performance



Schneider Electric Infrastructure

Not Rated

Price: Rs 144

BSE Index: 29,974

06 April 2017

Beneficiary of pick-up in Smart city tendering activity

Piecemeal ordering underway for Smart city capex, tendering activity expected to pick-up: While government has identified 100 cities to be upgraded as smart cities, concrete plans for integrating multiple systems are being finalised. Currently, ordering for Smart city capex is done on piecemeal basis and ordering activity is expected to pick-up, as bids for finalisation of Project Management Consultants (PMC) and vendors seem to be getting issued. Initial demand is expected to come from Supervisory Control and Data Acquisition (SCADA) systems & products, but aged infrastructure with major DISCOMS can act as a major hindrance in exploiting the full potential of Smart systems. Tendering for Smart city capex is to be done by state government backed agencies, which are in process of assigning system integration responsibilities.

Energy rebound initiatives and solar power to be new growth levers: As a part of the energy rebound initiative, SEIL proposes to shift from Engineering to order (ETO) to Configuration to order (CTO) model, which can result in lowering manufacturing time from 3 months to 3 weeks. SEIL also intends to prototype some of products like RMU's, relays, SCADA equipment, etc. by standardising around 4-5 models can be an important factor driving SEIL's growth prospects. Additionally, SEIL can benefit from constant increase in commissioning of solar power in India. SEIL had powered 2 GW of solar power through its inverters, transformers and medium voltage equipment.

Tenders floated by several cities for Smart city capex

City	Scope of work	Outcome
Nagpur	Selection of area based consultants	Outcome awaited
Raipur, Ajmer and Kota	Finalisation of PMC for Smart city project	Outcome awaited
Gwalior	Finalisation of PMC for Smart city project	Outcome awaited
Madurai, Thanjavur and Vellore	Finalisation of PMC for Smart city implementation across Madurai, Thanjavur and Vellore.	Dead line for PMC finalisation is 17th April 2017
Delhi	Smart parking management system at Connaught place	Failed to finalised vendor
Jaipur	(a) Smart roads (b) Smart class rooms (c) Smart solid waste centre	Outcome awaited. Total tender value expected to be Rs 2 bn
Coimbatore		Yet to appoint project management consultant
Indore	Work commenced across areas like (a) setting up smart poles (b) laying underground cables (c) creating underground ducts	Outcome awaited
Belagavi		Project management consultant finalised

City	Scope of work	Outcome
Bubaneswar	Tender floated for Master System Integrator for (a) traffic & parking management, (b) city-based Wi Fi, (c) emergency response system, (d) multi modal city transport and (d) multi modal city transport	Approximate cost on integration to be at Rs 5.85 bn, to be executed over the next 24 months
Thiruvananthapuram		iDECK finalised to draft Smart city proposal
Ludhiana	Tenders floated for (a) installation of sign boards and (b) construction of public toilets	Outcome awaited
Pune	Setting up Wi Fi network across 200 locations along with setting up of (a) emergency call boxes, (b) public address systems, (c) environmental sensors, (d) variable messaging displays, (e) network connectivity and (f) video analytics integration	Order placed to L&T

Source: B&K Research

Typical scope of work across Smart cities in India

	Land area required (acres)	Scope of work
Retrofitting	500	Work to be undertaken across existing cities and it involves, mainly upgradation of existing infrastructure.
Redevelopment	50	Work involves breaking of old buildings and infrastructure and creating a new one on the existing land mass.
Greenfield	250	Work to be undertaken across vacant area. Ex GIFT city
Pan - city		Application of smart solutions that involve use of technology for better utilisation of resources and improvement of productivity.

Source: B&K Research

Targeting to be PAT positive by CY18: For 9HFY17, Schneider Electric Infrastructure (SEIL) had reported loss of Rs 102 mn (versus loss of Rs 63 mn in 9MFY16). Cash loss for 9MFY17 was at Rs 13.1 mn mainly because of Rs 104 mn loss booked in 1QFY17, which dropped to Rs 22 mn in 2QFY17. SEIL's focus is on arresting losses and becoming PAT positive by CY18 by (a) selective bidding for projects under Smart city capex, (b) changing revenue mix with higher share targeted from service and transaction-based business, which entail higher margins, (c) risk mitigation by bidding with EPC across Smart city-based projects and (d) launch of standardised products, for which plans are in initial stages.

Products/Services under each business segment with existing revenue contribution and expectations

Systems	Services	Transactional
Power transformers	Spares	Product
Switchgears	AMC's	RMU
Automation	Project revamp	Automation products
Solutions		
Revenue contribution		
70%	8%	20%
Targeted revenue contribution		
50%		50%

Source: Company, B&K Research

Plan of action to increase profitability and expand value drivers

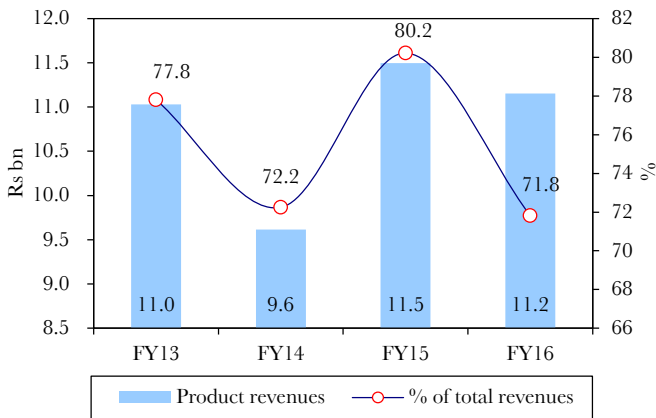
Profitability actions targeted
(a) New orders
(b) Leverage digitalisation and standardisation
(c) CTO model
(d) Cost structure in line with mix volume
Targeted value drivers
(a) Profitable business mix
(b) Channel to market
(c) Emerging domains
(d) Advanced solutions
(e) HR transformation

Source: Company, B&K Research

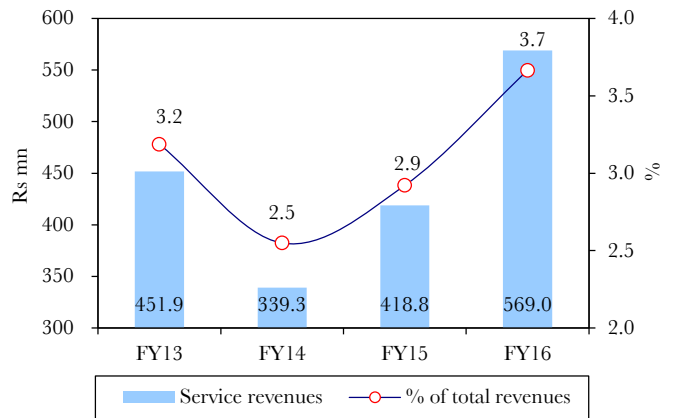
Gradual expansion of service & equipment sales to support margin expansion: Margin expansion for SEIL would be dependent on (a) increased revenues from service business, which accounted for 4% of revenues in FY16 and increased 36% YoY at Rs 569 mn and expects the business to grow in the range of 15-20% and (b) increased sales of transaction-based business which includes sales of products like Transformers, Switchgears, RMU's, etc.

Major scope of work under services segment would include O&M of equipment, which includes both own (70% of O&M revenues) and other equipment manufacturers (30% of O&M revenues). Margins across service business are 4-5% higher than normal margins. Increase in transaction-based business should help in increased dispatch of equipment and support operating leverage for manufacturing operations.

Products accounted for 72% of total revenues



Service income increased to 4% of total revenues



Source: Company, B&K Research

Shift from ETO to CTO to lower manufacturing timings: SEIL is in process of gradually shifting its manufacturing operations from Engineering to order (ETO) to Configuration to order (CTO) model, which can result in lowering manufacturing time from 3 months to 3 weeks. Transition to CTO entails manufacturing of around 4-5 prototypes across major products like RMU's, relays, SCADA equipment, etc.

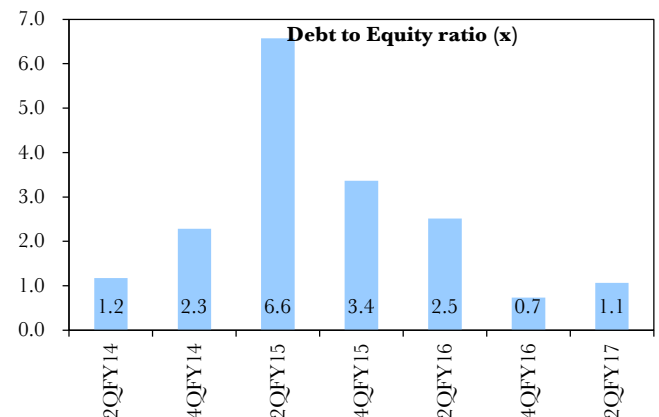
Product-wise revenue break-up of equipment

(% of total revenues)	FY13	FY14	FY15	FY16
Transformers	23	19	21	19
Automation	9	5	11	9
Switchgears, RMU's, etc.	45	48	48	44

Source: Company, B&K Research

Targets to maintain debt as focus is on cash collections and margins: SEIL has an outstanding gross debt of Rs 2.3 bn as on 2QFY17 (down 20% YoY) representing debt to equity ratio of 1.1x, comprising of Rs 650 mn of long term debt and Rs 1.7 bn of short term debt. With focus on bagging orders with (a) higher margins, (b) favourable commercial terms and (c) increased inflows of orders from service and transactional segments, SEIL expects to maintain debt at existing levels.

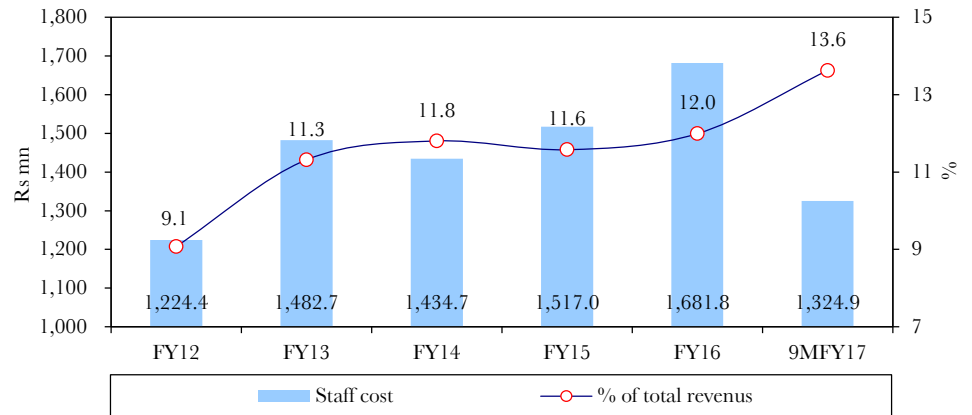
Gross debt has decreased to Rs 2.3 bn from peak of Rs 2.9 bn in 2QFY16



Source: Company, B&K Research

Staff cost to rationalise, as digitalisation picks up: Staff cost accounted for 12% of FY16 revenues and increased 11% YoY. SEIL's focus is expected to be on rationalisation of staff cost, as increase in digitalisation would entail lower man power requirements.

Staff cost had gradually increased from 9% of revenue to 12% in FY16



Source: Company, B&K Research

Outlook and valuation

SEIL is not a part of our coverage universe. Hence, we do not have estimates for the company. Major growth drivers from near to medium-term perspective are expected to materialise as tendering activity across Smart city capex seems to be picking up. Other growth avenues for SEIL would include (a) Smart grid capex, (b) increased commissioning of renewable power, which requires specialised grid connectivity equipment and (c) increased integration of multiple systems, which can be expected to finalise once piecemeal contracts are awarded. Major challenges faced by SEIL from near to medium-term perspective would include (a) booking order inflows with required margins in challenging environment, (b) maintaining leverage levels at existing levels and (c) scaling up the value chain across digitalisation opportunities and remain competitive as against European peers.

About SEIL

SEIL is an Indian entity of Schneider Electric which specialises in providing specialised solutions for (a) Smart grid capex. SEIL has recently unveiled “Conext SmartGen” an intelligent cloud connected solutions for utility scale renewable power at REI Expo 2016. SEIL is engaged in the business of Manufacturing, Designing, Building and Servicing Technologically Advanced Products and Systems for Electricity Distribution including products such as Distribution Transformers, Medium Voltage Switchgears, Medium Voltage Protection Relays and Electricity Distribution & Automation equipment.

Management profile



Mr Prakash Kumar Chandrekar, Managing Director has experience of more than 28 years in power industry and had proved his mettle by working in multiple roles domains like business management, marketing, sales and operations, etc. Prior to joining SEIL, he was associated with companies like Cegelec, Alstom T&D and Areva T&D. He has been honoured with “Pinnacle Award” by Schneider Electric for his excellence in operations for exemplary work in Areva T&D.



Mr Anil Chaudhry, Marketing Director and President of Schneider Electric India Pvt. Ltd. has been associated with SEIL since March 2013 and was previously associated with Schneider Electric SAS since June 2010 (erstwhile Areva T&D, which was taken over by Schneider Electric). He has been awarded Chevalier De La Legion dHonneur (Knight of Legion of Honour), the highest civilian distinction for strengthening Indo French relations.



Mr Arnab Roy, Chief Financial Officer is a qualified cost accountant with 20 years of rich and diverse experience with US and British MNCs, handling all aspects of finance and accounts. Prior to Schneider Electric, he was CFO, India cluster for G4S Group, a British MNC. He was with GE for 5 years managing roles of P&L CFO India for GE Energy Management covering the Electrical Distribution business at GE and Director, Finance for India Supply Chain for Manufacturing and Sourcing Operations of GE.



Mr Vineet Jain, is a qualified chartered accountant with 12 years of diverse experience in Indian & US MNCs handling valuation, M&A and financial restructuring. Prior to Schneider Electric, he was associated with Evalueserve, leading the Valuation & M&A team and set up various processes.

SEIL's capabilities across Smart city capex

Smart city	Smart grid automation and flexible distribution
	Smart metering management and demand response
	Renewables integration and micro grid
	Real time smart grid suite
	Gas distribution management
Smart mobility	Electric vehicle charging infrastructure and supervision services
	Traffic management
	Tolling and congestion charging
	Integrated mobility (Public transit/traveller information)
Smart water	Water distribution management/leak detection/water quality
	Power control and security systems integration
	Storm water management/Urban flooding
Smart public services	Video surveillance and emergency management
	E governance, education, health care and tourism
	Street lighting management
Smart building and homes	Energy efficiency and security solutions/Energy solutions
	Home energy management
	Connection to smart grid
Smart services	Integrated city management platform
	Power, Security, Building, IT and process management and system integrated architecture
	Security systems and management
	Energy and Environment management information system
	Weather intelligence
	IT and Telecom integration

Source: Company, B&K Research

Smart city solutions provided by Schneider Global

Smart water solutions	On line network optimisation
	Energy optimisation system for waste water treatment
	River basin and storm water management
	Smart water networks
	Process optimisation: Plant structure function
Smart energy solutions (Electric Utilities)	Remote monitoring and control
	Distribution automation based on L500 network management
	Overhead and underground feeder automation
	Load shedding schemes
	Advanced distribution management systems
	End to end smart metering solutions
	Geospatial intelligence
Weather solutions for utilities/renewables	
Smart energy solutions (Oil & Gas)	Meter and operational data management
	Gas utility operations control and information management
Smart energy solutions (Marine)	Safety of natural gas services
	Shore connection to ship power supply for zero emissions
Smart solutions (Industrial and Office buildings)	Comprehensive energy performance
	Photovoltaic generation for solar farms
	Intrusion detection integration
	Remote energy management solutions
Smart solutions (Residential)	On site energy management solutions for buildings
	Solar Photovoltaic for residential and small building applications
Smart solutions (Healthcare)	Intelligent building management systems
Smart public service solutions	Weather solutions for airports
	Weather solutions for public works
	Weather solutions for public services
Smart mobility solutions	Reduction in urban traffic congestion
	Effective and accurate tolling
	Driver safety by avoiding accidents and emergency solutions
	Increased highway safety and improved traffic flow
	Operational efficiency and flow of smart information
	Traveller information

Source: Company, B&K Research

Income Statement

Period end (Rs mn)	Mar 13	Mar 14	Mar 15	Mar 16
Net sales	13,104	12,157	13,105	14,026
Growth (%)	(2.9)	(7.2)	7.8	7.0
Operating expenses	(12,775)	(12,996)	(13,338)	(13,611)
Operating profit	329	(839)	(233)	415
EBITDA	329	(839)	(233)	415
Growth (%)	(65.1)	-	-	-
Depreciation	(260)	(227)	(249)	(258)
Other income	68	450	696	106
EBIT	138	(616)	214	263
Finance cost	(318)	(260)	(385)	(428)
Exceptional & extraordinary	0	0	0	(17)
Profit before tax	(181)	(876)	(171)	(182)
P/(L) for the period	(181)	(876)	(171)	(182)
Reported Profit/(Loss)	(181)	(876)	(171)	(182)
Adjusted net profit	(181)	(876)	(171)	(182)

Cash Flow Statement

Period end (Rs mn)	Mar 13	Mar 14	Mar 15	Mar 16
Profit before tax	(181)	(876)	(171)	(182)
Depreciation	260	227	249	258
Change in working capital	(124)	788	257	(1,071)
Total tax paid	(32)	0	114	0
Others	250	(190)	(311)	322
Cash flow from oper. (a)	173	(51)	138	(673)
Capital expenditure	(162)	(184)	(258)	(215)
Others	255	581	886	174
Cash flow from inv. (b)	93	396	628	(41)
Free cash flow (a+b)	265	345	767	(714)
Equity raised/(repaid)	0	0	0	1,720
Debt raised/(repaid)	93	255	266	(1,110)
Others	(422)	(633)	(499)	(428)
Cash flow from fin. (c)	(329)	(378)	(233)	182
Net chg in cash (a+b+c)	(64)	(33)	534	(532)

Balance Sheet

Period end (Rs mn)	Mar 13	Mar 14	Mar 15	Mar 16
Share capital	478	478	478	2,198
Reserves & surplus	1,907	658	372	190
Shareholders' funds	2,385	1,136	850	2,388
Non-current liabilities	245	2,044	2,097	1,124
Long-term borrowings	0	1,900	1,900	915
Other non-current liabilities	245	144	197	209
Current liabilities	10,421	8,649	10,525	9,387
ST borrowings, Curr maturity	2,341	697	963	838
Other current liabilities	8,080	7,953	9,562	8,549
Total (Equity and Liab.)	13,051	11,829	13,472	12,900
Non-current assets	2,725	2,688	2,450	2,414
Fixed assets (Net block)	1,989	1,946	1,956	1,913
Long-term loans and advances	89	225	282	357
Other non-current assets	647	517	212	145
Current assets	10,326	9,141	11,022	10,486
Cash & current investment	44	11	545	13
Other current assets	10,282	9,130	10,477	10,473
Total (Assets)	13,051	11,829	13,472	12,900
Total debt	2,341	2,597	2,863	1,753
Capital employed	4,971	3,877	3,910	4,351

Key ratios

Period end (%)	Mar 13	Mar 14	Mar 15	Mar 16
Adjusted EPS (Rs)	(0.8)	(3.7)	(0.7)	(0.8)
Growth	NA	385.0	(80.5)	6.3
CEPS (Rs)	0.3	(2.7)	0.3	0.3
Book NAV/share (Rs)	10.0	4.8	3.6	10.0
EBITDA margin	2.5	(6.9)	(1.8)	3.0
EBIT margin	1.1	(5.1)	1.6	1.9
RoCE	2.7	NA	5.5	6.4
Total debt/Equity (x)	1.0	2.3	3.4	0.7
Net debt/Equity (x)	1.0	2.3	2.7	0.7
Du Pont Analysis - ROE				
Net margin	(1.4)	(7.2)	(1.3)	(1.3)
Asset turnover (x)	1.0	1.0	1.0	1.1
Leverage factor (x)	5.1	7.1	12.7	8.1
Return on equity	NA	NA	NA	NA

Valuations

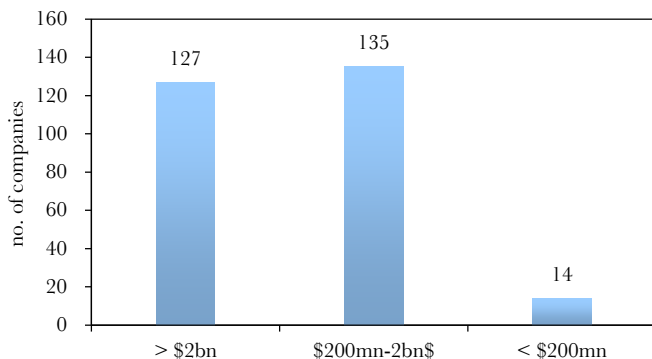
Period end (x)	Mar 13	Mar 14	Mar 15	Mar 16
PER	NA	NA	NA	NA
PCE	220.8	NA	670.9	460.3
Price/Book	7.3	18.2	61.1	14.6
EV/EBITDA	59.9	NA	NA	88.3

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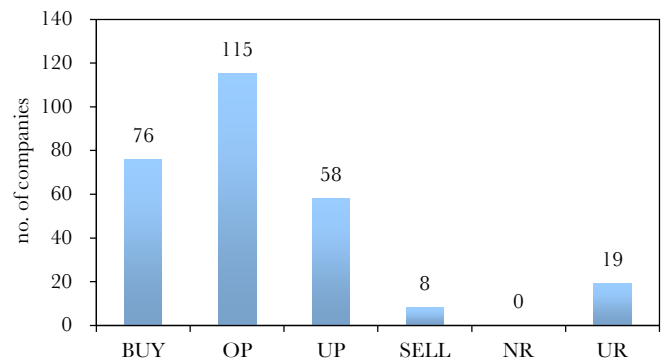
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B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



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	LARGE CAP (Market Cap > USD 2 bn)	MID CAP (Market Cap of USD 200 mn to USD 2 bn)	SMALL CAP (Market Cap < USD 200 mn)
BUY	>+20% (absolute returns)	>+25% (absolute returns)	>+30% (absolute returns)
OUTPERFORMER	+10% to +20%	+15% to +25%	+20% to +30%
UNDERPERFORMER	+10% to -10%	+15% to -15%	+20% to -20%
SELL	<-10% (absolute returns)	<-15% (absolute returns)	<-20% (absolute returns)

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