

SCHNEIDER ELECTRIC INFRASTRUCTURE LTD.(SEIL)

Stock Performance Details

Current Price	: Rs. 90.65**
Face Value	: Rs. 2 per share
52 wk High / Low	: Rs. 100.60 / Rs. 58.75
Total Traded Volumes	: 37,000 shares**
Market Cap	: Rs. 2,167 crore**
Sector	: Capital Goods - Electrical Equipment
EPS (FY2012)	: Rs. 1.60 per share
P/E (TTM)	: 67.71 (x)^
P/BV (TTM)	: 6.7 (x)^
Financial Year End	: 1 st April - 31 st March
BSE Scrip Name	: SCHNEIDER
BSE Scrip Code	: 534139

**as on 13th September, 2012; ^ as on June 2012

Shareholding Details - June 2012

Particulars	Shareholding	
	Nos.	(%)
Promoter & Promoter Group Holding	17,54,92,524	73.40
Total Institutional Holdings (FIIs & DIIs)	3,13,36,785	13.11
Public Holdings	3,22,74,726	13.50
Total	23,91,04,035	100.00

Strategy Focus

- During the year, Schneider Electric Infrastructure Limited became a listed entity and integrated itself with the Schneider Electric Group. This is expected to deliver synergies and leverage the group portfolio including Telvent.
- The company is focused on Research and Development and continues to provide innovative solutions in Products and Transformers Segments. It has bagged orders from Oman, Kenya, UAE, Bahrain, Jordan etc for Equipments and has focused on product up-gradations and improvements.
- SEIL helps utilities to reduce key concern areas like revenue realization and distribution losses to power utilities, by providing digital solutions for efficient management of the grid thereby minimizing losses. These smart solutions help power utilities which are its customers, to track energy flows resulting in minimizing distribution losses.
- In the Solutions space, the company continues its leadership positioning and expanding its presence by adding more industries like Cement, Mining & Metal, Powergen, Renewables, Oil & Gas and Infrastructure in addition to Utilities.

Background

- Schneider Electric Infrastructure (erstwhile SMARTGRID AUTOMATION DISTRIBUTION AND SWITCHGEAR LTD) was incorporated on March 12, 2011 and is based in Gujarat.
- SEIL offers high-end technology engineered products under six business heads - namely Transformers, Equipment, Products, Substation Automation Systems & Relays, Solutions for SMART Grid and SMART City and Turnkey solutions and services, in close proximity to its customers.
- It had 5 production facilities with 11 System Solution Centres and 24 Authorised Service Centres across India, as on June 1st, 2012.
- The company has two facilities in Vadodara and Kolkata that manufacture range of Products. Both these factories are ISO 9001:2008, ISO 14001:2004 & OHSAS 18001:2007 certified.
- The company specializes in medium voltage products encompassing Gas insulated Ring Main Units, Vacuum Circuit Breakers, contactors, Outdoor Porcelain clad circuit breakers, Loco Breakers and Vacuum Interrupters for Power Distribution from generation in power plant to the end user. Transformers are manufactured in Naini (Uttar Pradesh) and Vadodara (Gujarat).
- In the Switchgears business, the company has leadership positioning and offers innovative products by focusing on Research and Development. It exports its products to various countries.
- Under the Power System Protection and Substation Automation domains the company provides conceptualization to installation services with technical training and maintenance.
- The range of solutions encompasses cover intake/evacuation sub-stations, electrical balance of plant (eBoP), electrical distribution systems, medium and low voltage packages, customized packages for specific needs, power distribution for infrastructure, providing extended warranty and long term maintenance support.
- The turnkey services include retrofits, improving the reliability and extending the life of existing installation of equipment base.

Financial Snapshot

Particulars	Standalone Financials (Rs. In Million)	
	FY12	FY11
Income Statement		
Net Sales / Income from Operations	13,491.9	0.00
Expenses		
Cost of material consumed	9,456.6	0.00
Change in Inventories	84.9	0.00
Employee Benefit Expenses	1,224.4	0.00
Administrative & Other Expenses	1,782.6	0.00
EBIDTA	943.4	-0.20
Depreciation & Amortization	215.0	0.00
Finance Costs / Interest Expense	158.5	0.00
Other Income	43.1	0.00
Profit After Tax (PAT)	397.7	-0.20
Key Ratios - Income Statement		
EBIDTA Margin (%)	6.99	NM
PAT Margins (%)	2.95	NM
Balance Sheet		
Networth	2,669.6	0.80
Non - Current Liabilities / Loan Funds	0.00	0.00
Non Current Assets / Fixed Assets	2,072.7	0.00
Inventories	1,852.6	0.00
Debtors	6,425.9	0.00
Key Ratios - Balance Sheet		
Debt : Equity (x)	0.00	0.00
Book Value (BV) (in Rs.)	11.17	1.60
Return on Capital Employed (ROCE) (%)	53.86	0.00
Return on Equity (ROE) (%)	29.79	0.00
Debtors Turnover Ratio (x)	4.52	0.00
Inventory Turnover Ratio (x)	15.67	0.00
Valuation Ratios		
P/E (x)	41.69	0.00
P/BV (x)	5.97	0.00
EV / EBDITA (x)	16.06	0.00

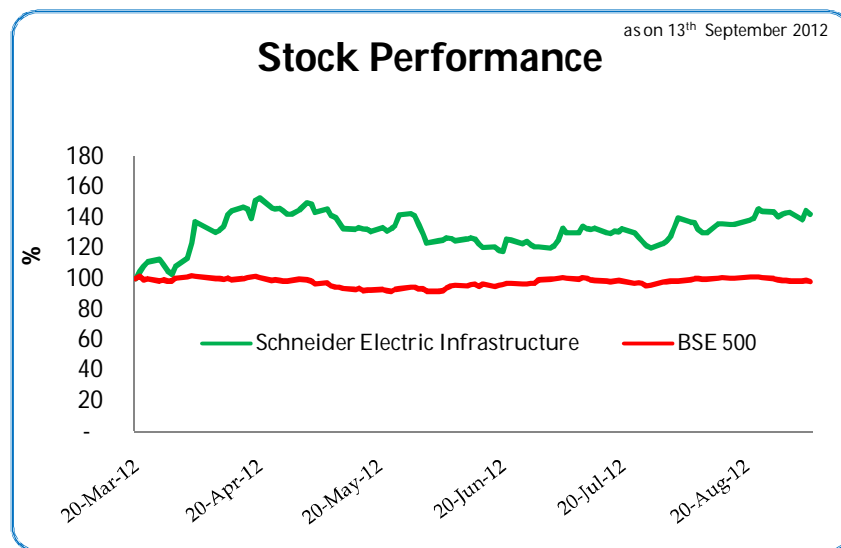
Source : Capitaline Database, as on 31st March, 2012; Not Meaningful – as company had not commenced operations in FY2011

From the Research Desk of LKW's Gurukshetra.com

- The company's business comprises the demerged undertaking that was transferred to it by Areva T&D pursuant to the Scheme of Demerger, which became effective on 26th November, 2011 and thus, the financials are not comparable on a year on year basis i.e. FY2012 financials will not be comparable to those of FY2011.
- For the period ended FY2012, the company had a Total Orders of Rs.13,867 million with an Order Backlog of Rs.11,245 million which provides fair revenue visibility given the uncertain economic conditions.

- Total Sales stood at Rs. 13,492 million while EBITDA stood at Rs. 943 million translating into operating margins of ~7%. Net Income stood at Rs. 397.7 million with PAT margins at 2.9%. Despite satisfactory topline growth, the net margins came under pressure mainly due to high cost of financing its debt.
- Improved order intake, new product introductions, integration with Schneider Electric, better operational management, improving working capital efficiency have been some of the factors that have led to a satisfactory performance in the first year since listing.
- During Q1 FY13, SEIL reported sales of Rs. 3,313 million as against Rs. 3,445 million in Q1 FY12 which de-grew by 4% on a y-o-y basis. Despite this, the EBITDA improved to Rs. 144 million a rise of 4.3% y-o-y on account of cost conscious approach adopted by the company.
- Sales and order intake rose by 16% in the June quarter of FY2013 on a sequential basis due to execution of order backlog. Further, financial difficulties at the customer's end increased the debtors' provisions affecting net income and the company has thus reported a loss in Q1 FY13 to the tune of Rs. 51 million. This was also impacted by foreign exchange variations, separation costs and one off items that have impacted the bottomline margins.
- The strong in-house research and development and global R&D support team on account of integration with the Schneider Electric Group augurs well over the longer term. Further, its leadership position in the Infrastructure sector providing SMART products and solutions especially in the T&D Segment provide it a competitive edge in an industry which has high entry barriers.
- As the company's products find application primarily in the Power Transmission & Distribution space a major concern area is the highly regulated nature of the industry. Secondly, competition is intense, both from small unorganized players manufacturing range of transformers as well as big organized players like ABB, Areva T&D, BHEL, Voltamp Transformers, Crompton Greaves, Kirloskar Electric, Transformers & Rectifiers India etc to name a few and could pose a threat to SEIL.

Performance on the Bourses



Peer Comparison

The following table gives a snapshot view of the company's performance vis-à-vis large well established listed peers for FY2012 in the competitive Capital Goods Industry. However, the below mentioned financials are not directly comparable as SEIL lacks an operational track record.

(Rs. In Million)

Particulars	Standalone Financial		
	Schneider Electric Infrastructure	BHEL	Alstom India
Net Sales	13,491.9	479,637.4	18,671.3
EBIDTA	943.4	98,879.9	1,745.8
PAT	397.7	70,399.6	1,677.5
EBIDTA Margins (%)	7.0	20.6	9.4
PAT Margins (%)	2.9	14.7	9.0
P/E (x) **	67.71	7.95	16.4
P/BV (x) **	6.70	2.24	4.1
Debt : Equity (x)	0.00	0.00	0.00
EV / EBIDTA (x)**	21.20	5.53	8.57

Source : Capitaline Database; ** TTM – as on June 2012;

About the Industry

India is ranked as the fifth largest power consuming country in the world (Source: Company Annual Report 2012). Power generation capacity in India has increased substantially over recent years and as of 31st October, 2011 India had a total installed capacity of 182,689.6 MW.

The proposed capacity addition for power generation during the XI Five-year Plan (2007-12) is 78,700.4 MW and tentative capacity addition of approximately 100,000 MW has been envisaged under the XII Five-year Plan (2012-17) (Source: Company Annual Report 2012).

However, supply has not kept pace with the rapid growth of the Indian economy, despite relatively low per capita electricity consumption in comparison to other major economies. In the 12th plan, Government of India is focusing on adding 75,785 MW of generation capacity to the Grid. Handling such a bulk volume of power would need a stable and energy efficient grid network from generation to the consumer levels. This translates into huge potential for the power ancillary sector.

The key concern for this (Transmission & Distribution) industry arises from policy uncertainties and delays, rising interest rate scenario, inflationary pressures, cheap imports, lack of capital investments to upgrade systems and high transmission & distribution losses which are currently estimated to be 32 - 35% which are amongst the highest in the world

The Power Sector is characterized by factors like intense competition, regulatory hurdles, policy uncertainties, dominance of State Electricity Boards for power distributions whose credit history is weak, environmental and land acquisitions issues, long gestation projects, high entry barriers, huge capital requirements, scarcity of coal coupled with rising costs and margin pressures.

Outlook

While the sector undoubtedly has huge potential it has been marred by the overall economic slowdown and delay in policy execution.

However, the company's leadership positioning in many of the segments like Protection & Substation Automation System, Medium Voltage Switchgear Segment, Solutions Centre Activity etc, well established brand of the parent Schneider Electric, huge client base and diversified business operation augur well for its long term prospects. But near term pain due to adverse economic conditions, high interest rates, inflation, falling IIP data, policy, delay in finalization of and execution of power projects being awarded along with negative investor sentiment may impact SEIL's financial performance in the near term.

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