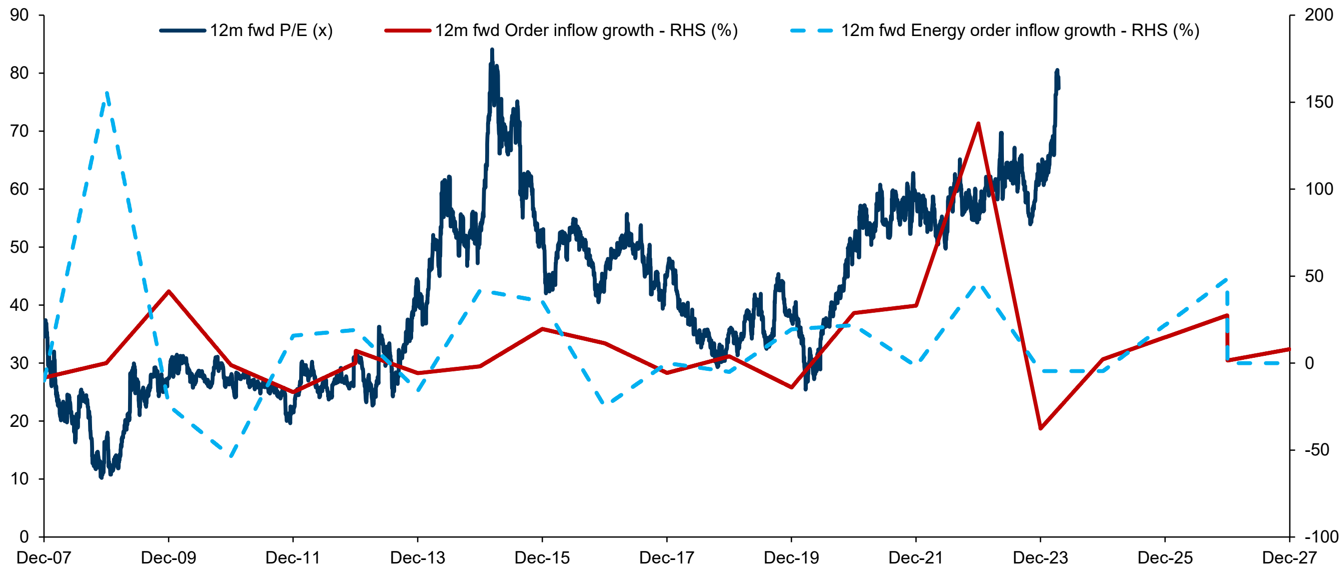
Exhibit 55: Siemens India – 12m fwd P/E vs. overall & power order inflow growth



*CMP as on 16th Apr'24

Source: Company data, Visible Alpha Consensus Data, Datastream, Goldman Sachs Global Investment Research

Earnings drivers & outlook

We estimate an 84% earnings CAGR in FY23-26E for Hitachi Energy India, driven by a sharp pick-up in ordering activity (28% order inflow rise as transmission capex materially increases) along with 510bps EBITDA margin expansion, contributed by both gross margin expansion of c.230bps and operating leverage benefit of c.280bps.

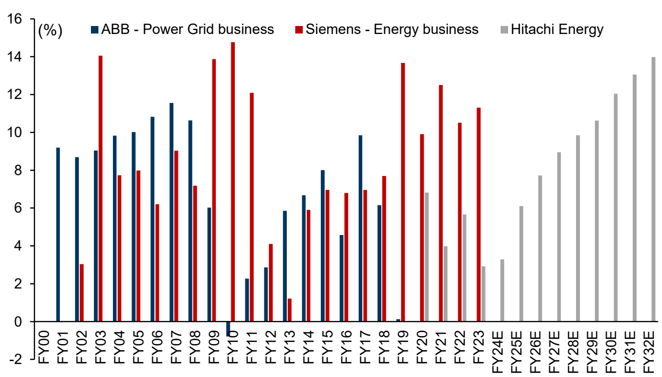
Our EBIT margin estimates for Hitachi are in line with those reported by comparable businesses of ABB India (not covered) and Siemens India (not covered), while our RoCE estimates are conservatively lower than through-the-cycle RoCE reported by Siemens India's comparable business.

Exhibit 56: Key earning drivers

(Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	Comments
All India Transmission Capex	386,485	303,277	412,935	510,388	809,553	962,202	1,050,260	1,042,271	1,022,895	1,063,850	Expect pick up in transmission capex as RE transition gains pace
Hitachi's mkt share (%)	4.0	7.1	11.4	6.8	9.8	11.8	12.8	13.3	13.8	13.5	Hitachi's market share in India's transmission TAM to rise as large HVDC projects & STATCOMs get awarded
Order inflow -											
Utilities	15,284	21,558	47,039	34,451	78,931	113,059	133,908	138,101	140,648	143,620	
Industries	7,980	11,279	9,544	10,976	13,720	17,150	21,437	26,796	30,816	35,438	Could surprise on the upside if Electrolyser manufacturing picks up
Transport & infrastructure	8,945	12,644	10,908	11,998	12,898	14,188	16,316	18,764	21,578	25,894	
Total order inflow	**32,209**	**45,481**	**67,490**	**57,425**	**105,549**	**144,396**	**171,661**	**183,661**	**193,042**	**204,951**	
Average order book	50,278	48,136	58,716	74,487	95,404	133,411	171,929	200,836	218,326	228,546	
Execution rate (%)	**66.6**	**98.9**	**73.8**	**65.8**	**73.8**	**76.3**	**78.8**	**79.8**	**82.3**	**85.8**	
Revenue -											
Products	23,379	34,023	35,287	39,802	57,395	83,266	110,971	131,004	146,338	158,890	
Projects	9,388	12,262	7,115	8,048	11,561	16,714	22,245	26,315	29,503	32,197	
Services	710	1,322	943	1,178	1,473	1,841	2,301	2,991	3,889	5,055	Expect service revenue to scale up as Hitachi rolls out Lumada and Digital Logic solutions
Gross margin (%)	**38.6**	**34.9**	**33.0**	**34.2**	**35.0**	**35.3**	**35.6**	**35.9**	**36.1**	**36.4**	
Payment to parent / group entities as % of revenue	10.2	8.7	6.8	6.1	6.2	6.2	6.2	6.2	6.2	6.2	
Other costs as % of revenue	23.2	22.3	23.6	23.8	21.2	19.2	18.0	17.1	16.6	16.0	
EBITDA margin (%)	**7.3**	**6.4**	**5.6**	**5.8**	**8.8**	**10.7**	**12.1**	**13.1**	**13.9**	**14.7**	Benefit of operating leverage
Gross Fixed Asset Turnover (x)	**3.7**	**4.9**	**4.0**	**3.8**	**3.9**	**4.0**	**4.3**	**4.3**	**4.2**	**4.3**	**Operating leverage, rising share of services**

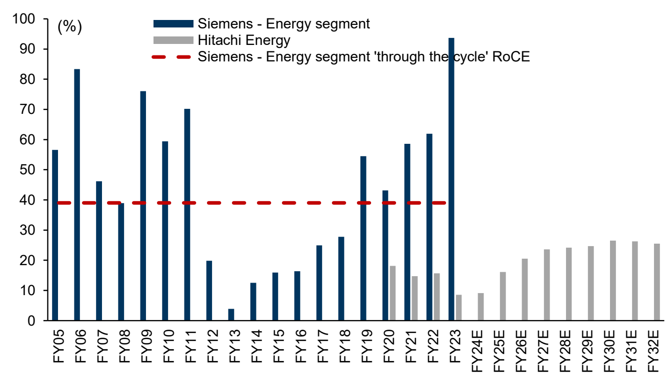
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 57: Annual EBIT margins of ABB & Siemens' comparable businesses vs. our est. for Hitachi



Source: Company data, Visible Alpha Consensus Data, Goldman Sachs Global Investment Research

Exhibit 58: We conservatively factor in lower long-term RoCE for Hitachi than Siemens' through the cycle returns – mainly on lower asset turns



Source: Company data, Visible Alpha Consensus Data, Goldman Sachs Global Investment Research

Exhibit 59: Income statement
Standalone financials

(Rs mn)	CY19	CY20	FY22	FY23	FY24E	FY25E	FY26E
Core operating revenue	31,898	33,477	47,607	43,345	49,028	70,429	101,821
Other revenue	462	727	1,233	1,340	1,200	1,300	1,400
Total revenue	**32,361**	**34,204**	**48,840**	**44,685**	**50,228**	**71,729**	**103,221**
- direct costs	20,277	20,274	30,577	28,615	32,261	45,779	65,929
Gross profit	**11,621**	**13,204**	**17,030**	**14,730**	**16,768**	**24,650**	**35,892**
Gross margin (%)	*35.9*	*38.6*	*34.9*	*33.0*	*33.4*	*34.4*	*34.8*
- employee cost	2,552	3,694	4,868	4,173	4,590	5,049	5,807
- other expense	6,174	7,728	10,289	9,397	10,457	14,559	20,428
EBITDA	**3,358**	**2,509**	**3,107**	**2,500**	**2,921**	**6,342**	**11,058**
EBITDA margin (%)	*10.4*	*7.3*	*6.4*	*5.6*	*5.8*	*8.8*	*10.7*
- depreciation	484	772	955	802	925	1,191	1,666
- finance cost	264	204	414	401	695	1,146	1,815
+ other income	5	185	669	151	350	375	400
Core PBT	**2,614**	**1,718**	**2,407**	**1,449**	**1,651**	**4,380**	**7,977**
- Forex	-	-	-	141	-	-	-
- MTM	-	-	-	-	-	-	-
+ exceptional item	(408)	(355)	359	-	-	-	-
Reported PBT	**2,207**	**1,363**	**2,766**	**1,308**	**1,651**	**4,380**	**7,977**
- Tax	553	365	732	369	438	1,161	2,114
Tax rate (%)	*25.0*	*26.8*	*26.5*	*28.2*	*26.5*	*26.5*	*26.5*
Reported PAT	**1,654**	**998**	**2,034**	**939**	**1,213**	**3,219**	**5,863**
+ Adjustments	306	264	(264)	-	-	-	-
Recurring PAT	**1,960**	**1,262**	**1,770**	**939**	**1,213**	**3,219**	**5,863**

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 60: GSe vs consensus - Hitachi Energy India standalone financials

(Rs mn)	GSe			Consensus			Divergence (%)		
Standalone	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	50,228	71,729	103,221	51,089	67,429	N/A	(1.7)	6.4	N/A
EBITDA	2,921	6,342	11,058	2,858	5,966	N/A	2.2	6.3	N/A
PAT	1,213	3,219	5,863	1,185	3,597	N/A	2.4	(10.5)	N/A

Priced as of April 11, 2024

Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 61: Balance sheet

Standalone financials

(Rs mn)	CY19	CY20	FY22	FY23	FY24E	FY25E	FY26E
GFA	7,680	9,147	9,921	11,176	13,176	18,176	25,676
Accumulated depreciation	2,203	2,907	3,714	4,360	5,285	6,477	8,143
NFA	**5,477**	**6,240**	**6,207**	**6,815**	**7,890**	**11,699**	**17,533**
CWIP	567	374	1,244	506	506	506	506
Total Fixed Assets	**6,043**	**6,615**	**7,451**	**7,321**	**8,396**	**12,205**	**18,038**
Goodwill	318	318	318	318	318	318	318
Investment - LT	-	-	-	-	-	-	-
Investment - ST	-	-	-	-	-	-	-
Regulatory deferral balance	-	-	-	-	-	-	-
Other non-current assets	134	144	151	474	474	474	474
Inventory	4,932	4,951	7,073	8,179	8,506	11,164	14,651
Receivables	17,829	17,607	15,140	17,801	18,633	25,135	34,050
Cash & bank	1,880	3,190	859	1,633	3,329	2,793	2,679
Loans & advances	129	163	232	57	57	57	57
Other current assets	3,141	1,827	3,668	3,084	3,084	3,084	3,084
Total current assets	**27,911**	**27,737**	**26,971**	**30,754**	**33,609**	**42,232**	**54,521**
Payables	13,771	15,780	16,190	15,146	15,649	21,856	30,038
Provisions	1,393	1,707	1,743	1,952	1,952	1,952	1,952
Other current liabilities	7,314	7,820	4,050	6,569	6,569	6,569	6,569
Net current assets	**5,433**	**2,430**	**4,988**	**7,087**	**9,439**	**11,855**	**15,962**
Total Assets	**11,928**	**9,506**	**12,907**	**15,200**	**18,627**	**24,852**	**34,792**
Share capital	85	85	85	85	85	85	85
Reserves & surplus	8,313	9,240	11,239	12,068	13,096	15,821	20,511
Net worth	**8,398**	**9,325**	**11,324**	**12,153**	**13,180**	**15,905**	**20,596**
Minority interest							
LT debt	-	391	650	593	1,993	5,493	10,743
ST debt	3,476	-	1,250	2,750	3,750	3,750	3,750
Total debt	**3,476**	**391**	**1,900**	**3,343**	**5,743**	**9,243**	**14,493**
Other non-current liabilities	12	9	32	22	22	22	22
Deferred tax liabilities	42	(219)	(348)	(319)	(319)	(319)	(319)
Total Liabilities	**11,928**	**9,506**	**12,907**	**15,200**	**18,627**	**24,852**	**34,792**

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 62: Cash flow statement
Standalone financials

(Rs mn)	CY19	CY20	FY22	FY23	FY24E	FY25E	FY26E
Adjusted PAT	**1,960**	**1,262**	**1,770**	**939**	**1,213**	**3,219**	**5,863**
Add:							
Depreciation & Ammortisation	484	772	955	802	925	1,191	1,666
Minority interest & profit from associates							
Finance cost	264	204	414	401	695	1,146	1,815
Deferred tax	(69)	(236)	(146)	24	-	-	-
Less:							
Other income	5	185	669	151	350	375	400
Regulatory income / (expense)	-	-	-	-	-	-	-
Net extra-ordinary income	408	355	(359)	-	-	-	-
Operating cash flow before WC change	**2,226**	**1,462**	**2,682**	**2,014**	**2,483**	**5,181**	**8,944**
Change in Inventories	(236)	(19)	(2,122)	(1,107)	(327)	(2,658)	(3,487)
Change in Receivables	(3,690)	221	2,468	(2,662)	(832)	(6,502)	(8,915)
Change in Other current assets	(1,240)	1,281	(1,910)	759	-	-	-
Change in Current Liab.	2,539	2,828	(3,323)	1,684	503	6,207	8,182
Working Capital Inflow / (Outflow)	**(2,627)**	**4,312**	**(4,888)**	**(1,326)**	**(656)**	**(2,953)**	**(4,220)**
Cash flow from Operating Activities	**(401)**	**5,774**	**(2,206)**	**688**	**1,828**	**2,228**	**4,724**
% of operating cash flow	*(18.0)*	*395.0*	*(82.3)*	*34.2*	*73.6*	*43.0*	*52.8*
Purchase of Fixed Assets	(728)	(1,275)	(1,644)	(516)	(2,000)	(5,000)	(7,500)
Purchase of Investments	-	-	-	-	-	-	-
Cash flow from capital commitments	**(728)**	**(1,275)**	**(1,644)**	**(516)**	**(2,000)**	**(5,000)**	**(7,500)**
FCF after Capital Commitments	**(1,129)**	**4,499**	**(3,850)**	**172**	**(172)**	**(2,772)**	**(2,776)**
(Purchase) / sale of ST Investments	-	-	-	-	-	-	-
Other Income	5	185	669	151	350	375	400
Cash flow from Investing Activities	**5**	**185**	**669**	**151**	**350**	**375**	**400**
Issue of share capital during the year	85	-	-	-	-	-	-
Net proceeds from fresh borrowings	3,476	(3,476)	1,250	1,500	2,400	3,500	5,250
Dividend paid including tax	-	(85)	(127)	(144)	(186)	(494)	(1,173)
Finance cost	(264)	(204)	(414)	(401)	(695)	(1,146)	(1,815)
Reserve adjustments	(701)	36	500	(505)	-	-	-
Cash flow from Financing Activities	**2,597**	**(3,730)**	**1,209**	**450**	**1,519**	**1,860**	**2,262**
Net extra-ordinary income	408	355	(359)	-	-	-	-
Total Increase / (Decrease) in Cash	**1,880**	**1,309**	**(2,330)**	**774**	**1,697**	**(537)**	**(114)**

Source: Company data, Goldman Sachs Global Investment Research

Valuation & TP

We derive our 12-month forward target price of Rs8,250/sh by forecasting 15 year free cash flows and discounting it to FY26E by an 11.4% cost of equity and ascribing 5% terminal growth. We use a FCF-based valuation method as we expect Hitachi Energy's earnings to inflect materially as transmission capex cycle picks up, making it difficult to determine the exit year for applying target valuation multiple. We also expect the sharp pick up in business to require regular capex for capacity upgrades, which will be appropriately recorded in cash flows. Our FCF incorporates -

1. c.14% revenue CAGR in FY23-40E, led by materialisation of our transmission TAM estimate.
2. Gross margin expansion of c.750bps from 33% in FY23 to 40.5% by FY40E, on the back of product mix improvement from a rise in exports and service revenue.
3. EBITDA margin expansion of 1500bps+ on account of higher gross margins and operating leverage benefit, albeit against a weak base.
4. Corresponding capex rise to keep fixed asset turns in-line with 3.5-4.5x range.

5. We assign an M&A rank of 3 to Hitachi Energy India (denoting low likelihood of M&A) given it is majority owned by global parent Hitachi (6501.T; Buy) - 75% as of Dec'23).

Exhibit 63: Hitachi Energy India - DCF snapshot

(Rs mn)	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY35E	FY36E	FY37E	FY38E	FY39E	FY40E	
All India transmission capex	809,553	962,202	1,050,260	1,042,271	1,022,895	1,063,850	1,060,232	1,190,904	1,358,157	1,468,260	1,674,567	1,634,607	1,761,418	1,697,838	1,716,908	1,772,038	
- Transmission capex growth YoY (%)	58.6	18.9	9.2	(0.8)	(1.9)	4.0	(0.3)	12.3	14.0	8.1	14.1	(2.4)	7.8	(3.6)	1.1	3.2	
Hitachi India's mkt share (%)	9.8	11.8	12.8	13.3	13.8	13.5	13.3	13.0	13.1	13.1	13.2	13.2	13.3	13.3	13.4	13.4	
- Market share gain YoY (bps)	300	200	100	50	50	(25)	(25)	(25)	5	5	5	5	5	5	5	5	
Order inflow	105,549	144,396	171,661	183,661	193,042	204,951	210,535	234,984	269,017	299,238	342,587	369,252	399,405	396,102	402,057	416,521	
- Order inflow growth YoY (bps)	83.8	36.8	18.9	7.0	5.1	6.2	2.7	11.6	14.5	11.2	14.5	7.8	8.2	(0.8)	1.5	3.6	
Opening order book	78,265	113,385	155,960	192,104	215,455	228,767	237,577	239,796	253,909	277,584	305,984	344,875	375,972	406,403	413,692	418,920	
Order inflow	105,549	144,396	171,661	183,661	193,042	204,951	210,535	234,984	269,017	299,238	342,587	369,252	399,405	396,102	402,057	416,521	
Closing order book	113,385	155,960	192,104	215,455	228,767	237,577	239,796	253,909	277,584	305,984	344,875	375,972	406,403	413,692	418,920	429,133	
Average order book	**95,404**	**133,411**	**171,929**	**200,836**	**218,326**	**228,546**	**233,220**	**240,545**	**265,747**	**291,784**	**325,430**	**360,424**	**391,188**	**410,048**	**416,306**	**424,027**	
Execution rate (%)	73.8	76.3	78.8	79.8	82.3	85.8	89.3	91.8	92.3	92.8	93.3	93.8	94.3	94.8	95.3	95.8	
- YoY change in execution rate (bps)	800	250	250	100	250	350	350	250	50	50	50	50	50	50	50	50	
Share of service & exports in total revenue	27.2	28.4	28.5	28.9	29.5	30.2	31.0	31.6									
- YoY change (bps)	(119)	123	15	42	55	66	82	66									
Gross margin (%)	35.0	35.3	35.6	35.9	36.1	36.4	36.7	37.0	37.5	38.0	38.5	39.0	39.4	39.7	40.2	40.5	
Payment made to parent & group entities as % of revenue	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.1	6.0	5.9	5.8	5.7	5.6	5.5	5.4	
Other operating costs as % of revenue	21.2	19.2	18.0	17.1	16.6	16.0	16.0	15.9	15.7	15.4	15.2	14.9	14.7	14.4	14.2	13.9	
EBITDA	**6,342**	**11,058**	**16,561**	**21,266**	**25,268**	**29,150**	**31,627**	**34,222**	**38,369**	**44,659**	**52,658**	**61,508**	**69,881**	**76,360**	**81,307**	**85,687**	
EBITDA margin (%)	8.8	10.7	12.1	13.1	13.9	14.7	15.0	15.4	15.6	16.5	17.3	18.2	18.9	19.6	20.5	21.1	
Depreciation	1,191	1,666	2,179	2,635	3,091	3,395	3,585	3,813	3,963	4,113	4,263	4,413	4,763	5,113	5,463	5,813	
Finance cost	1,146	1,815	2,537	3,142	3,386	2,927	2,086	1,245	1,245	1,245	1,245	1,245	1,245	1,245	1,245	1,245	
Tax	1,061	2,008	3,139	4,105	4,980	6,049	6,878	7,728	8,788	10,415	12,495	14,800	16,926	18,550	19,769	20,837	
PAT (ex-post tax other income)	**2,943**	**5,569**	**8,706**	**11,384**	**13,811**	**16,778**	**19,077**	**21,435**	**24,373**	**28,886**	**34,655**	**41,049**	**46,946**	**51,451**	**54,830**	**57,792**	
Depreciation	1,191	1,666	2,179	2,635	3,091	3,395	3,585	3,813	3,963	4,113	4,263	4,413	4,763	5,113	5,463	5,813	
Capex	(5,000)	(7,500)	(6,000)	(6,000)	(6,000)	(2,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(7,000)	(7,000)	(7,000)	(7,000)	
Working capital	(2,953)	(4,220)	(7,987)	(7,060)	(6,549)	(3,664)	156	418	451	508	579	652	708	737	747	748	
Debt repayment	3,500	5,250	4,200	3,700	(500)	(5,500)	(5,500)	(5,500)	(5,393)	-	-	-	-	-	-	-	
FCFE	**(318)**	**765**	**1,097**	**4,660**	**3,853**	**9,009**	**14,318**	**17,166**	**20,395**	**30,507**	**36,498**	**43,114**	**45,418**	**50,302**	**54,040**	**57,353**	**946,639**
Period	-	-	1	2	3	4	5	6	7	8	9	10	11	12	13	14	
Discount factor	-	1.0	0.9	0.8	0.7	0.7	0.6	0.5	0.5	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.2
DCF	-	765	985	3,758	2,790	5,858	8,360	9,000	9,602	12,898	13,856	14,698	13,904	13,828	13,340	12,713	209,842
RoCE (%)	*16.1*	*20.5*	*23.6*	*24.2*	*24.7*	*26.5*	*26.2*	*25.5*	*24.0*	*24.9*	*25.9*	*26.6*	*26.4*	*25.3*	*23.8*	*22.3*	

PV of FCF	**346,199**	**CoE (%)**	**11.4**
+FY26 cash	**2,679**	**Terminal growth (%)**	**5.0**
Value/sh	**8,250**		

Source: Company data, Goldman Sachs Global Investment Research

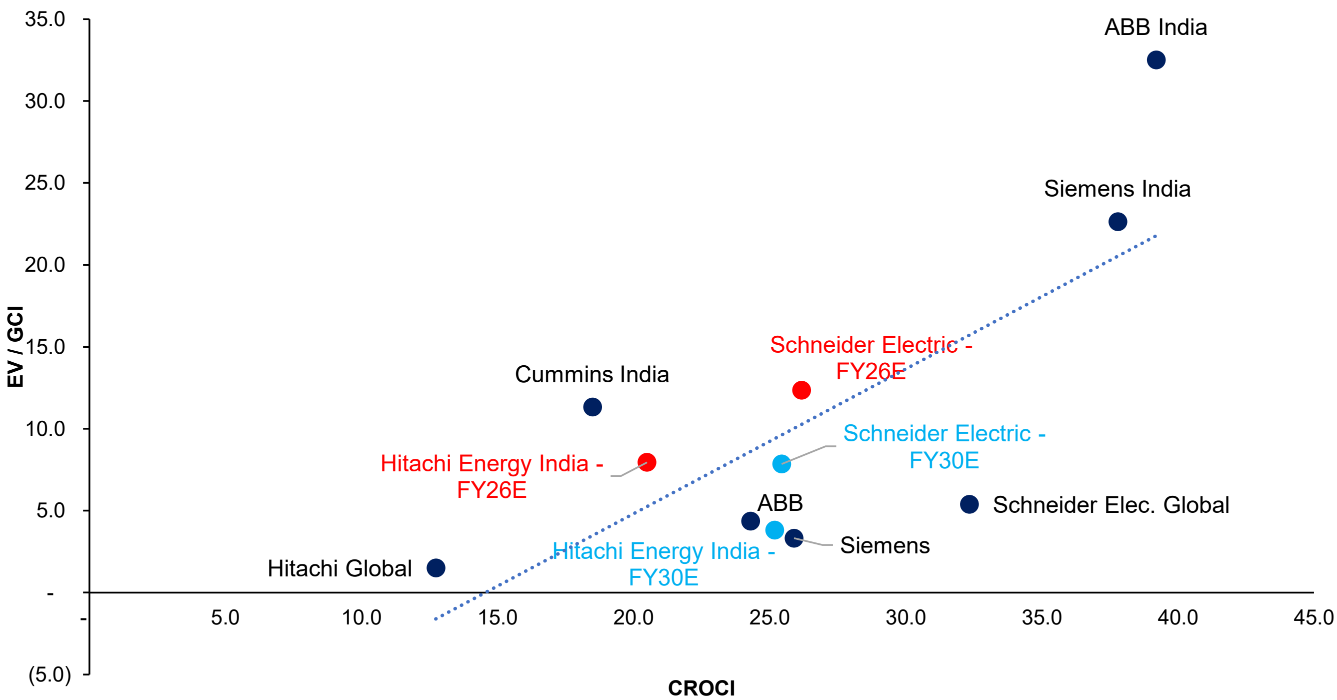
Our bull case estimates factor higher system level transmission capex, larger market share for Hitachi, larger gross and EBITDA margins expansion due to superior product mix, lower competitive intensity and higher operating leverage. Our bull case fair value implies an FY26E P/E of 100x - derived from ascribing our base case implied P/E multiple of 60x to FY30E EPS and discounting it back to FY26E using GSe CoE of 13.5%. In our bear case, we assume lower transmission capex and higher competitive intensity, which would result in lower market share gain for Hitachi and inferior gross and EBITDA margins. Our bear case fair value implies FY26E P/E of 32x and is derived using the same methodology as our bull-case fair value.

Exhibit 64: Our bull case for Hitachi Energy India factors in sharper order inflow growth, larger market share gain and higher operating leverage, whereas our bear case factors in lower transmission capex ramp up and materially lower margin improvement

Particulars	Base	Bull	Bear
Transmission asset base (CAGR %; FY23-30E)	19.0	20.7	17.1
Order inflow (CAGR %; FY23-30E)	17.0	19.8	13.1
Market share change (bps; FY23-30E)	211	225	211
Gross margin change (bps; FY23-30E)	344	394	184
Operating leverage change (bps; FY23-30E)	569	609	166
FY26E EPS	138	157	78
FY30E EPS	413	451	168
Implied P/E (x)	60	100	32
Fair value (Rs/sh)	**8,250**	**15,625**	**5,450**

Source: Goldman Sachs Global Investment Research

Exhibit 65: Relative positioning - Indian MNC industrial companies trade at significant premium to their global parents; Hitachi's CROCI to improve meaningfully as operating leverage kicks in with order inflow pick up



Source: Company data, Visible Alpha Consensus Data, Datastream, Goldman Sachs Global Investment Research

Investment thesis

We view Hitachi Energy India as a pure upstream manufacturing play on India's energy transition, with its technology leadership in the high-voltage equipment segment and highly indigenized manufacturing capabilities. We expect Hitachi to be a significant beneficiary of our US$100bn/US$500bn grid capex estimate by FY32E/50E, in addition to the US$14bn/US$51bn non-grid related transmission equipment spend over the same period.

Additionally, Hitachi Energy India is also expected to be a beneficiary of rising grid digitalization (opportunity to differentiate and increase share of recurring, high-margin service revenue), global transmission equipment shortage (could improve export pricing power and factory utilization) and supply chain diversification themes (potentially enhances India's positioning as a global feeder factory).

Valuation methodology and risks

Valuation methodology: We derive our 12-month forward target price of Rs8,250/sh (implied FY26E P/E of 60x) by forecasting free cash flows out to FY40E and discounting to FY26E by an 11.4% cost of equity and ascribing 5% terminal growth. Our FCF incorporates a c.14% revenue CAGR and 750bps/1500bps gross/EBITDA margin expansion, respectively, in FY23-40E.

Key downside risks: Delay in transmission capex cycle pick up, rise in competitive intensity dragging margins, increase in royalty/technology usage payments to global parent.

1. **Delay/slower-than-expected pick-up in transmission project awards -** on account of either underestimation of grid upgrade by planners / government or delay in execution due to shortage of transmission equipment (playing out globally).
2. **Higher competitive intensity -** especially if incumbents undertake manufacturing capacity expansion but transmission capex doesn't rise correspondingly. Higher competitive intensity would not only impact order inflow but would also drag margins.
3. **Increase in royalty / technology payments to parent -** as Hitachi Energy India's profitability improves and business shifts from legacy systems to those of global parent. Additionally, deployment of new technologies / solutions like Lumada, GlobalLogic could require higher payments to parent.

Schneider Electric Infrastructure Ltd. (SEIN.BO): Potential beneficiary of distribution capex expansion and energy efficiency drive, but unfavorable risk-reward; initiate at Sell

Investment Thesis

RDSS to boost electricity distribution TAM: As part of power distribution sector reforms, the Indian government launched the Revamped Distribution System Scheme (RDSS), with two major components 1) Financial support for Prepaid Smart Metering & System Metering and upgradation of the Distribution Infrastructure, and 2) Training & Capacity Building and other Enabling & Supporting Activities. We expect the Revamped Distribution System Scheme (RDSS) to drive US$37bn capex in distribution system expansion and strengthening over the next 5 years. So far, projects worth US$14bn have been sanctioned under the scheme, of which we estimate Schneider Electric Infra (SEIL) to have a play in 50%+ of the total capex outlay (Exhibit 70). Additionally, the company highlighted it is working towards leveraging global technology platform of its parent company (SCHN.PA, covered by Daniela Costa) to improve its service offerings, which we believe could position SEIN as a manufacturing alternative for parent company's existing manufacturing base, in the longer term.

Carbon taxes could open large opportunity: With the proposed implementation of European Union's (EU) Carbon Border Adjustment Mechanism (CBAM) 2026 onwards, which intends to impose tariffs on carbon emissions on goods entering EU, we believe the criticality of energy efficiency improvement will increase significantly, given it is among the lowest hanging fruits for carbon abatement. We expect Schneider to benefit given its energy management expertise as it offers equipment and services which help in tracking and reducing energy usage in processes. Bureau of Energy Efficiency, Ministry of Power has pegged India's total energy efficiency market size at USD9bn, of which only 5% has been tapped yet.

But risk-reward unfavorable on valuation: While we see Schneider as a potential beneficiary of the imminent pick up in power distribution capex and the large energy efficiency opportunity, 375% rise in share price over the last 12 months has driven valuation to c.57x FY26E P/E, which appears expensive considering we expect company's RoCE to remain sub-30%. Further, unlike Hitachi Energy India, Schneider Electric Infra's products do not entail high-end technology and hence we expect the company to have sufficient pricing power to warrant the current high multiples. Our reverse DCF indicates that the stock is currently factoring c.8% terminal growth (vs. our coverage average of 4-5%), even with our estimated 18% core earnings CAGR b/w FY23-40E.

RDSS and energy efficiency solutions to drive growth: We believe Schneider can be a potential beneficiary under the Distribution Infrastructure Upgradation initiative of the RDSS scheme, which will account of 2/3rd of the total scheme outlay; we assess that Schneider's product profile exposes it to 50%+ of the potential capex spend. Incremental to this, we also expect Schneider to benefit from rise in demand for energy efficiency solutions with the like imposition of CBAM.

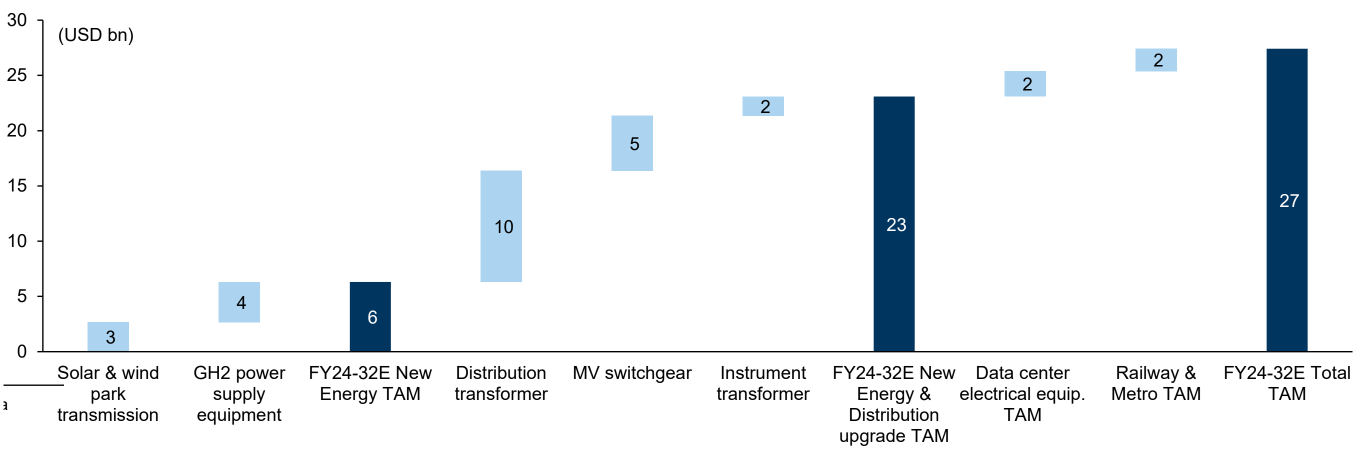
Earnings & valuation: 43% earnings CAGR b/w FY23-26E, driven by RDSS led distribution capex pick up, mix improvement and new plant commissioning. We initiate at Sell with a 12M TP of Rs470/sh (DCF-based) – implied FY26E P/E of 35x (41% downside potential vs. 9% median upside potential of our power transmission coverage).

Key upside risks and what could make us positive:

1. As state governments begin receiving capital subsidy from the central government under the RDSS, a sharper than expected ramp up in distribution capex vs. our estimates could result in upside to our forecasts. On this front, greater visibility on higher/sustainable capex could cause us to revisit our investment views on the stock.
2. Privatisation of power distribution / rise in parallel distribution licensing could lead to accelerated distribution capex spend, thereby resulting in quicker than expected materialisation of our TAM estimate.
3. In our view, capex on energy efficiency will be sensitive to quantum of carbon tax in the future, with higher carbon taxes incentivising industries to invest more, thereby increasing the TAM for Schneider and expediting its materialisation.
4. Access to / transfer of new technologies / products from parent for manufacture and sale from India could open newer profit pools for Schneider Electric Infra.

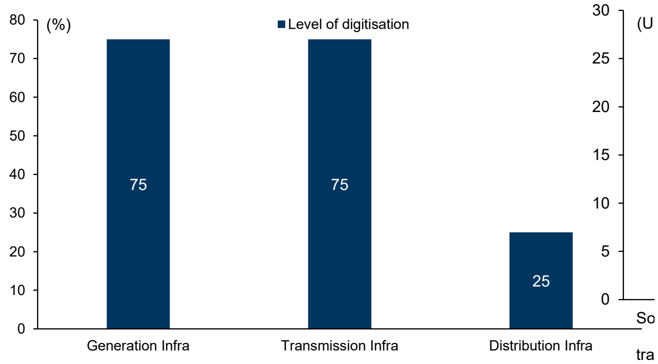
Thesis in key charts

Exhibit 66: Rising renewable penetration, ongoing distribution reforms in India open large TAM for Schneider



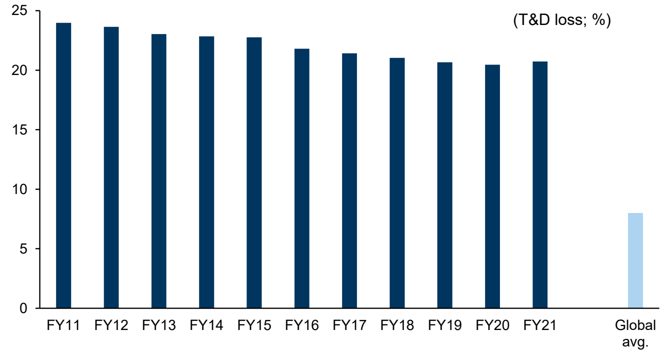
Source: CEA, Ministry of Power, Goldman Sachs Global Investment Research

Exhibit 67: Power distribution has the lowest level of digitsation in the entire electricity value chain...



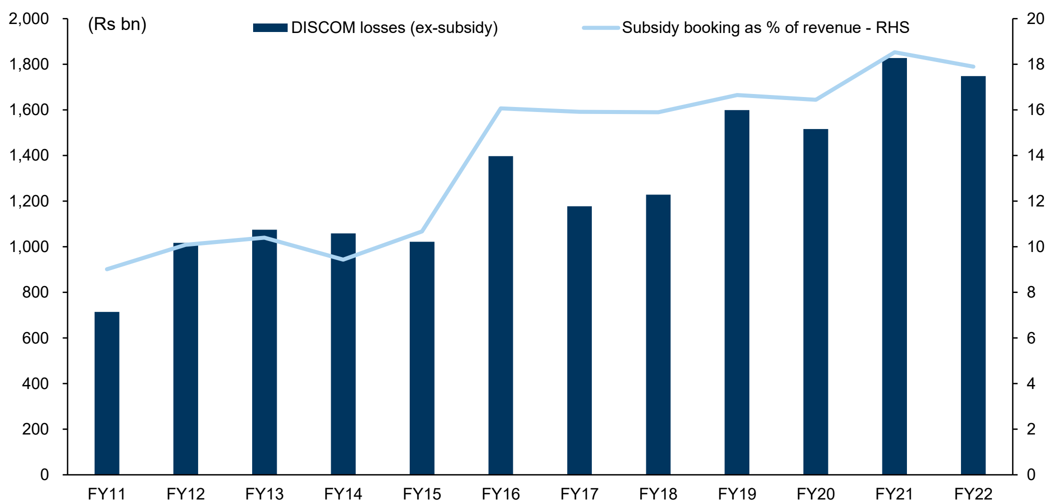
Source: Company data, Data compiled by Goldman Sachs Global Investment Research

Exhibit 68: ......with technical losses being 2x global avg. on distribution infra inadequacy



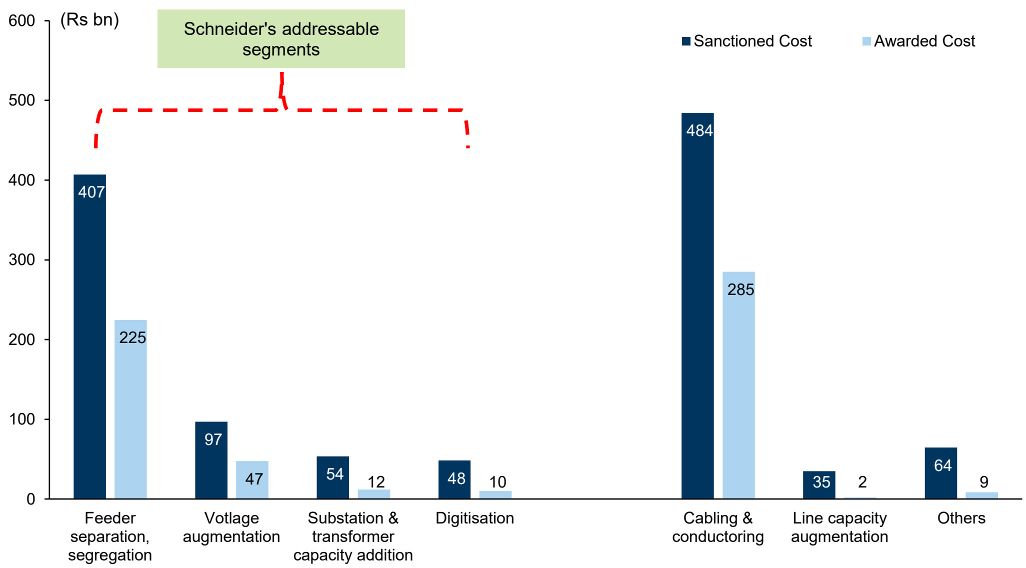
Source: PFC, CEA, Data compiled by Goldman Sachs Global Investment Research

Exhibit 69: Financial sustainability of DISCOMs has been deteriorating with subsidies now constituting almost a fifth of total revenues



Source: PFC, Data compiled by Goldman Sachs Global Investment Research

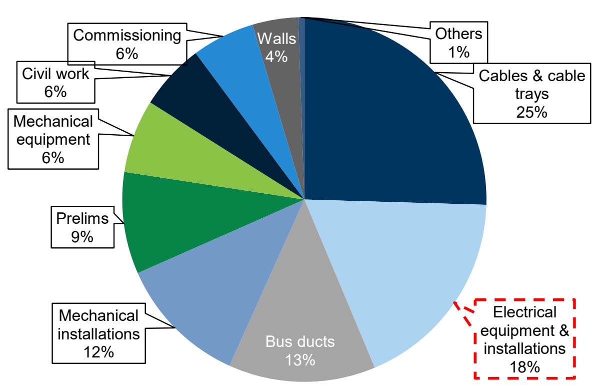
Exhibit 70: Based on our analysis of projects sanctioned & awarded under the Revamped Distribution Sector Scheme (RDSS) so far, Schneider has a potential play in 50%+ of the scheme capex. A large part of this opportunity is yet to materialize as capex equivalent to barely 25% of the scheme outlay has been approved so far



*based on the overlap of segments for which funds have been sanctioned and where Schneider Electric Infra has products

Source: Ministry of Power, Data compiled by Goldman Sachs Global Investment Research

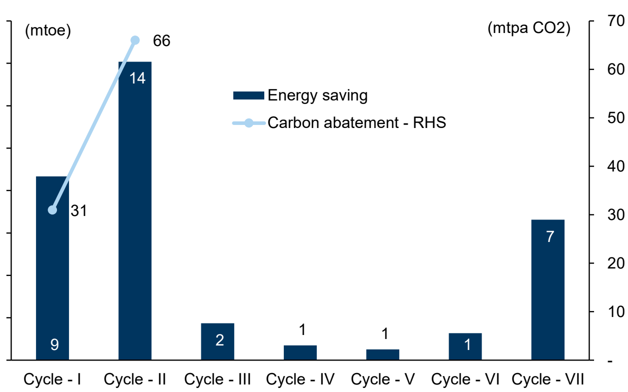
Exhibit 71: Like Hitachi, Schneider also has a play in the electrical components of datacenter capex...



Source: Yotta, Data compiled by Goldman Sachs Global Investment Research

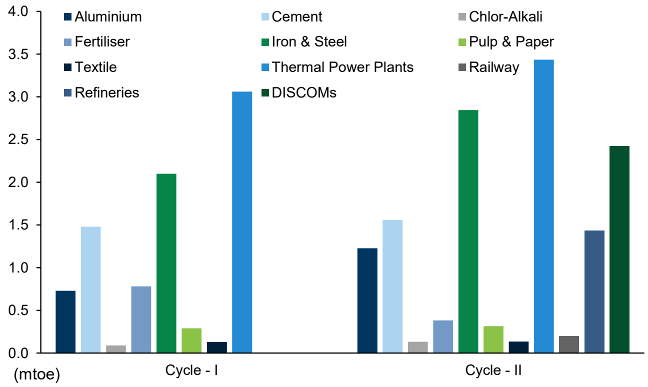
Exhibit 72: Govt's PAT scheme has helped save 34mn te oil equivalent (mtoe) energy so far, with the first 2 cycles helping abate 97mtpa CO2…

Energy saving (mtoe)



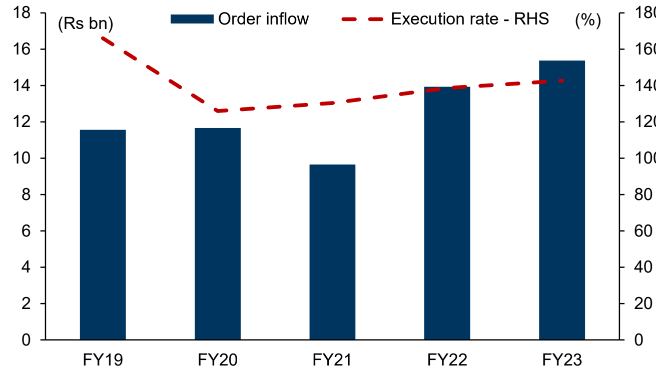
Source: BEE, Data compiled by Goldman Sachs Global Investment Research

Exhibit 73: …with Power Generation, Distribution and Iron & Steel industries reporting largest energy savings
Energy saving (mtoe)



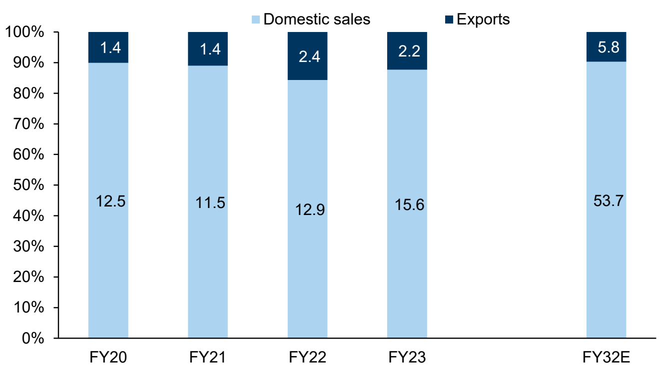
Source: BEE, Data compiled by Goldman Sachs Global Investment Research

Exhibit 74: 100%+ annual execution rate indicative of short cycle nature of business; order inflow has recovered since Covid lows



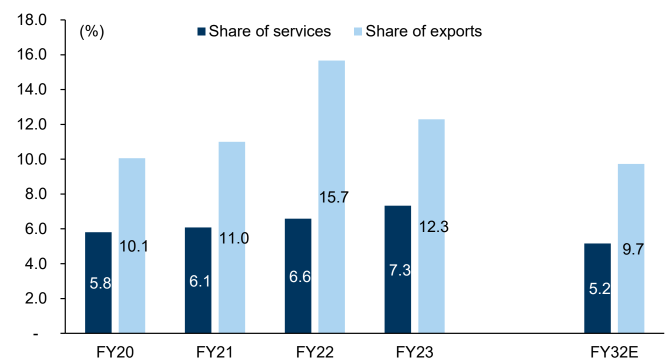
Source: Company data, Data compiled by Goldman Sachs Global Investment Research

Exhibit 75: While we estimate 14.7% / 11.4% CAGR in domestic sales and exports respectively...



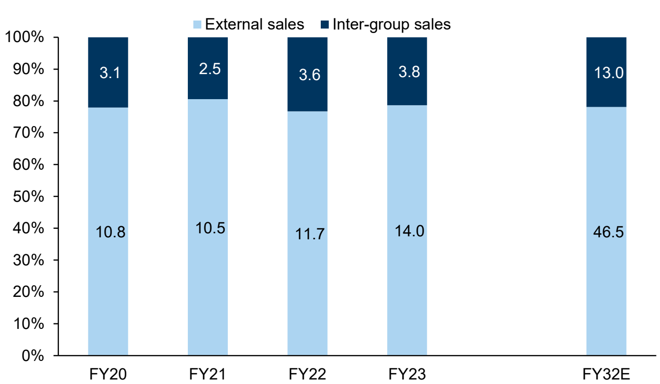
Source: Company data, Data compiled by Goldman Sachs Global Investment Research

Exhibit 76: ...we don't expect the contribution of exports and services to improve materially as they will be outpaced by the domestic product business growth



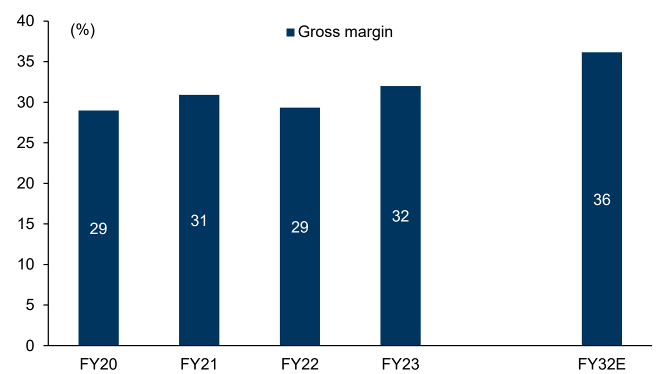
Source: Company data, Data compiled by Goldman Sachs Global Investment Research

Exhibit 77: Steady cost-plus inter-group sales provides certainty of asset utilisation



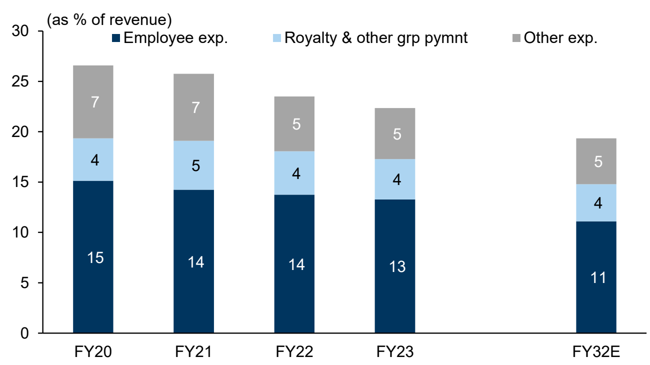
Source: Company data, Data compiled by Goldman Sachs Global Investment Research

Exhibit 78: Gross margin improvement driven by mix upgrade…



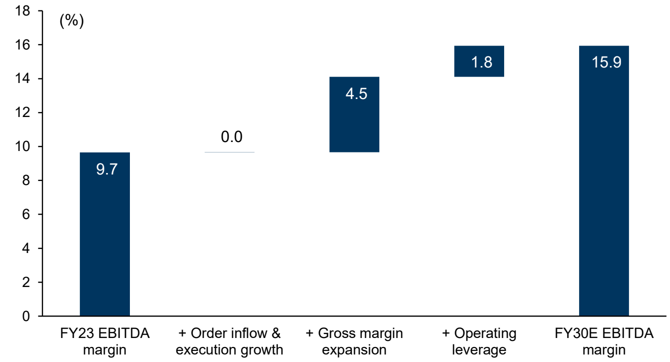
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 79: ..and control of non-core expenses, further improving the operating leverage



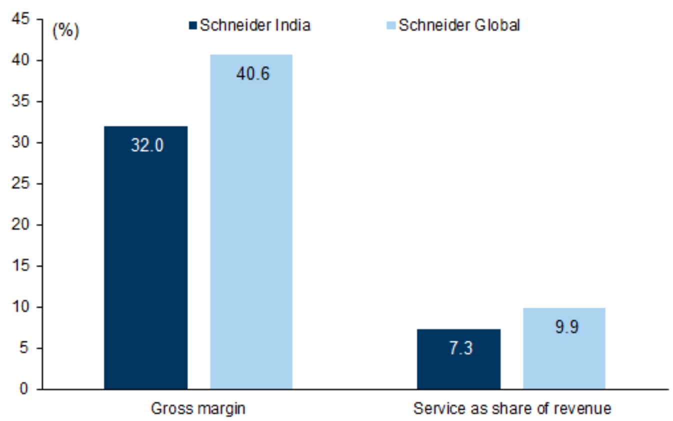
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 80: EBITDA margin bridge - we forecast 450bps improvement in Schneider's EBITDA margin between FY23-32E...



Source: Company data, Goldman Sachs Global Investment Research

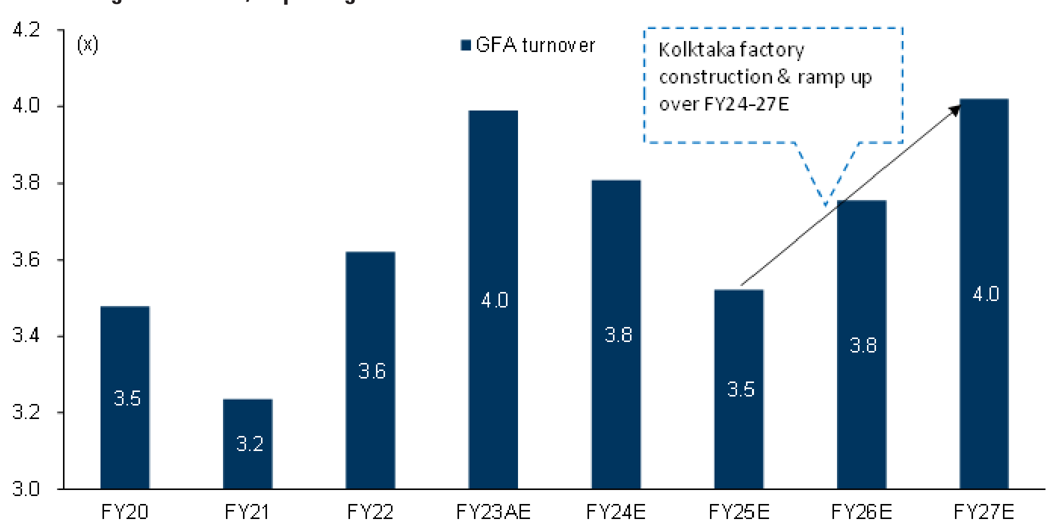
Exhibit 81: Schneider India lags global parent's gross margins and has a lower contribution by services in its overall revenues



*Schneider India's data for FY23, Schneider Global's for CY22

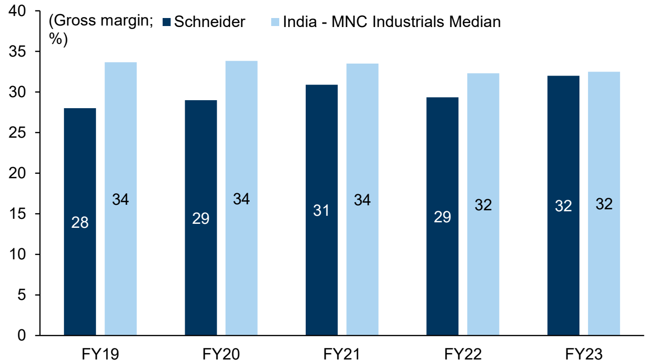
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 82: Schneider expects the upcoming Kolkata factory to serve domestic & group exports by contributing to revenues / improving value addition



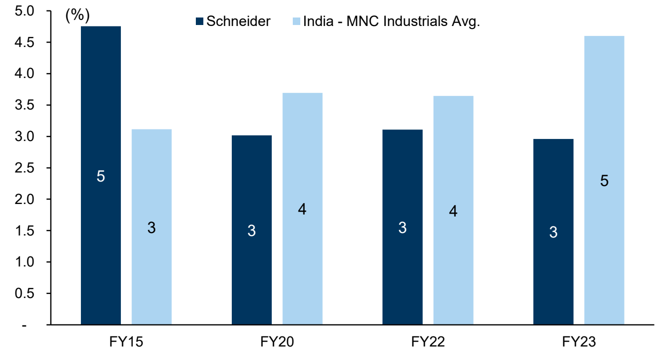
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 83: Schneider's gross margins are converging with industry average



Source: Company data, Visible Alpha Consensus Data, Goldman Sachs Global Investment

Exhibit 84: ...while its royalty & other payments to group entities lower than other MNC industrial companies listed in India



Source: Company data, Visible Alpha Consensus Data, Goldman Sachs Global Investment Research