

Techno Electric & Engineering Limited

BUY



Asian Markets Securities Pvt. Ltd.

Robust performance continued....

Institutional Research

CMP (Rs)	289
Target (Rs)	426

Nifty: 7,929; Sensex: 25,765

Key Stock Data

BSE Code	533281
NSE Code	TECHNO
Bloomberg Code	TEEC IN
Shares o/s mn (FV Rs2)	114.2
Market Cap (Rs bn)	33.3
52-Week High / Low	360/209
3-M Daily Avg. Vol.	58,206

Relative Performance

(%)	1m	3m	12m
TEEC	(4.2)	(10.1)	7.7
NIFTY	(8.8)	(8.5)	0.9
SENSEX	(8.2)	(8.2)	(0.4)

Shareholding Pattern

(%)	Mar16	Jun16	Sep16
Promoter	58.0	58.0	58.0
FII	2.4	8.2	9.3
DII	17.4	17.7	16.5
Others	22.2	16.2	16.2

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Techno Electric & Engineering Co Ltd. (TEEC) reported strong 2QFY17 results with consolidated Adjusted PAT of Rs 702mn Vs Rs447mn in 2QFY16. Consolidated revenue increased by 45.3% yoy at Rs 3.6bn on the back of strong EPC as well as wind revenue. Consolidated EBITDA increased by 34.2% yoy, owing to strong wind margins. EPC EBIT margin decreased by 88bp yoy due to high base in 2QFY16, but remain healthy at 15.2%. The current order book stands healthy at Rs25bn (including L1 of Rs1.5bn) and has a strong bidding pipeline. The management continues to be positive on EPC segment and is also looking to add a few BOOT projects in next 6-9 months. We have incorporated increased tariff and better PLF in our estimates in wind segment, and have kept EPC segment estimates unchanged. We have factored in 25% EPC revenue CAGR with stable EBITM and a higher PLF at 22% for wind business; resulting in upward revision in earning of FY17/18 by 13%/8%. Given the strong order book, high EBITDA margins, efficient working capital management, T&D assets and strong and consistent free cash flow generation, we believe the business continues to be attractive and may see rerating in the near future. We maintain BUY with a revised TP of Rs426. We value TEEC on SOTP basis valuing EPC at 20x FY18E earnings, wind business at DCF and the transmission BOT assets on the basis of BV. Our TP suggests at 45% upside from CMP, however we believe the stock has significant higher upside potential in the event of sale of entire wind asset.

Robust 2QFY17 EPC & Wind business revenue: TEEC reported strong 47.2% yoy growth in EPC revenues as the project execution remains strong on the back of higher order book. EPC EBITM though reduced by 88bp yoy but remain healthy at 15.2%. Wind business also reported strong recovery with 37.8% yoy revenue growth at Rs708mn along with higher EBITM at 75.4% due to increased realization and better wind conditions. Consolidated revenue grew by 45.3% yoy and Adj. PAT grew at 57.0% yoy to 702mn.

Healthy order book and pipeline: TEEC current order book stood at Rs25bn as on date (including L1 of ~Rs1.5bn), owing to strong inflow of Rs4bn in 2QFY17. The current order book reflects ~2.5x book-to-bill ratio suggesting strong visibility and growth in next two years. The order book (including L1 order) includes Rs19bn worth of orders from PGCIL, Rs2bn of order from NTPC & Rs4bn of order from SEBs. Management guided order inflow of 15-20bn for FY17E.

No impact of demonetization on biz in Q3 & Q4: Techno Electric: Techno Electric's EPC business is based on government capex or bank funding. Therefore, no impact of demonetization.

Asset Ownership: The two BOOT assets i.e Patran and Jhajjar are operating efficiently. TEEC has given loans & Advances of Rs1.25 bn to Patran projects which would be repatriated to TEEC in Jan'17. Further the company is bidding for a large BOOT project worth Rs11bn along with Kalpataru Power. TEEC would be a 26% beneficial partner in the JV. The bidding is expected to conclude by Jan'17. Further the management clarified that they are committed towards exiting the wind business, however it will not do so at a discounted valuations and would wait for the right valuation.

Management has maintain its guidance ~15-20bn of order inflow with 30% and 50% of revenue growth in EPC and wind segment resp. EPC margins to remain above 15%. We have kept our EPC estimates unchanged, factoring in 15% order inflow CAGR, EPC revenue CAGR at 25%, EBITM of 14% and PAT CAGR at 27%. We have also factored in better wind segment financials resulting in increase in our FY17/18 consolidated EPS by 13/8%.

Outlook and Valuations: Consolidated revenues and earnings are likely to increase by CAGR of 25.7% and 46.3% respectively over FY16-18E, lead by strong performance in EPC segment. We believe that our earnings estimates are still conservative compared with managements capability and guidance. Given the strong recovery in EPC business, one of the most efficient EPC players, sizable cash balance, wind power assets and potential sale of the assets, value accretive BOOT assets in power T&D side and positive free cash flows; we remain positive on the business. We reiterate BUY with a revised PT of Rs426. We value TEEC on SOTP basis valuing EPC at 20x FY18E earnings, remaining wind business at DCF and the transmission BOT assets on the basis of BV.

Exhibit 1: Key Financials (Consolidated)

Y/E Mar (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Sales	7,085	7,939	10,972	14,228	17,345
yoy (%)	1.2	12.1	38.2	29.7	21.9
EBITDA	1,925	2,114	2,203	3,279	3,673
yoy (%)	(17.9)	9.8	4.2	48.8	12.0
Adjusted PAT	875	1,051	1,219	2,241	2,611
yoy (%)	(27.6)	19.9	32.4	59.3	16.5
Equity	114	114	114	228	228
EPS	15.3	18.4	21.3	19.6	22.9

Exhibit 2: Key Ratios

Y/E Mar	FY14	FY15	FY16	FY17E	FY18E
EBITDAM (%)	27.2	26.6	20.1	23.0	21.2
NPM (%)	12.1	12.9	10.7	15.3	14.7
Adjusted PER (x)	37.7	31.4	27.1	14.7	12.6
P/BV (x)	2.0	1.8	1.6	2.8	2.4
EV/Sales (x)	2.9	2.6	1.7	2.4	1.9
EV/EBITDA (x)	10.5	9.7	8.6	10.5	8.8
Core RoACE (%)	9.5	10.0	9.8	17.0	19.0
Core RoANW (%)	12.3	12.9	12.5	22.5	23.4

Source: Company, AMSEC Research; Note: PER for historical financials are adjusted for bonus issue of 1:1 announced in FY17

Exhibit 3: Quarterly snapshot (Consolidated)

Y/E Mar (Rs mn)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	yoy(%)	qoq (%)	H1FY16	H1FY17	yoy (%)
Net Sales	2,531	3,167	3,260	2,709	3,676	45.3	35.7	4,545	6,385	40.5
Cons of Raw Materials	1,486	2,537	2,458	1,751	2,269	52.6	29.6	2,821	4,020	42.5
Employee Cost	74	83	75	72	100	35.1	39.0	143	172	20.4
Other Expenditure	140	178	222	174	192	37.5	10.0	275	366	33.3
Total Expenditure	1,700	2,797	2,754	1,998	2,561	50.6	28.2	3,239	4,558	40.7
EBITDA	831	370	506	712	1,115	34.2	56.7	1,306	1,827	39.8
Add: Other Income	60	171	94	82	56	(5.5)	(31.3)	106	139	30.7
Interest	98	88	110	92	126	28.3	36.5	213	218	2.5
Depreciation	118	117	140	133	133	12.3	0.2	237	265	11.9
Exceptional item	2	13	(12)	4	(5)	(302.7)	(200.7)	(245)	(0)	
Profit Before Tax	672	323	362	565	918	36.5	62.5	1,208	1,483	22.8
Provision for Taxation	250	45	76	84	200	(19.9)	136.6	408	284	(30.2)
Reported PAT	423	277	285	480	718	69.9	49.5	800	1,198	49.8
Minority Interest	-	-	-	-	-	-	-	-	-	-
Share of profit /loss of asso	23	-	(0)	(0)	(12)			23	(12)	
Adjusted PAT	447	288	276	484	702	57.0	45.2	661	1,186	79.4
Equity Capital (FQ Rs 2)	114	114	114	114	228			114	228	
Basic EPS (In Rs.)	7.4	4.9	5.0	8.4	6.3			14.0	10.5	
Adjusted EPS (In Rs.)	7.8	5.1	4.8	8.5	6.2			11.6	10.4	
EBITDA (%)	32.8	11.7	15.5	26.3	30.3	(249bp)	408bp	28.7	28.6	(13bp)
PAT (%)	20.6	9.9	9.4	20.4	21.2	61bp	81bp	14.2	18.2	396bp
Tax / PBT (%)	37.1	14.1	21.1	15.0	21.8	(1536bp)	682bp	33.7	19.2	(1457bp)
Raw Mat / Net Sales (%)	58.7	80.1	75.4	64.6	61.7	299bp	(292bp)	62.1	63.0	89bp
Emp Cost/Net Sales (%)	2.9	2.6	2.3	2.7	2.7	(20bp)	6bp	5.1	4.3	(79bp)
Other Exp/Net Sales (%)	5.5	5.6	6.8	6.4	5.2	(29bp)	(122bp)	191.8	212.4	2052bp

Source: Company, AMSEC Research

Exhibit 4: Quarterly segment (Consolidated)

Segment	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	yoy(%)	qoq (%)	H1FY16	H1FY17	yoy (%)
Revenue										
EPC (Construction)	2017	3128	3218	2311	2968	47.2	28.5	3796	5279	39.1
Energy (Power)	514	39	41	399	708	37.8	77.5	749	1106	47.7
Corporate	60	171	94	82	56	(5.5)	(31.3)	106	139	30.7
Total	2591	3338	3354	2792	3733	44.1	33.7	4652	6524	40.3
EBIT										
EPC (Construction)	325	327	548	335	452	39.1	34.7	554	787	42.1
Energy (Power)	385	(87)	(109)	239	534	38.7	123.2	480	773	61.2
Corporate	83	171	94	82	44	(46.5)	(45.8)	129	127	(2.2)
EBIT Margin (%)										
EPC (Construction)	16.1	10.4	17.0	14.5	15.2	(88bp)	71bp	14.6	14.9	32bp
Energy (Power)	74.9	(226.0)	(263.6)	60.0	75.4	53bp	1544bp	64.0	69.9	585bp
Corporate	139.0	100.0	100.0	99.9	79	(6031bp)	(2112bp)	122.0	91.3	(3074bp)
ROCE (%)										
EPC (Construction)	27.3	21.9	38.8	18.8	20.9	(641bp)	202bp	46.5	36.3	(1017bp)
Energy (Power)	3.4	(1.0)	(1.0)	2.2	4.9	150bp	267bp	4.2	7.1	286bp
Corporate	12.0	4.3	7.1	20.0	14	202bp	(599bp)	18.7	39.9	2121bp

Source: Company, AMSEC Research

Exhibit 5: Quarterly revenue trend

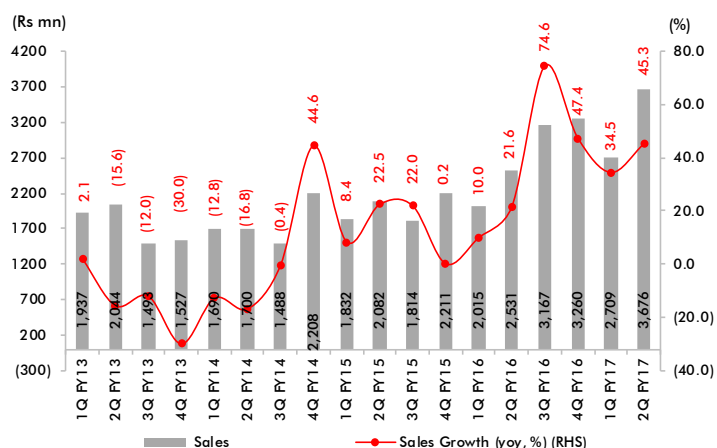


Exhibit 6: Quarterly revenue breakdown segment wise

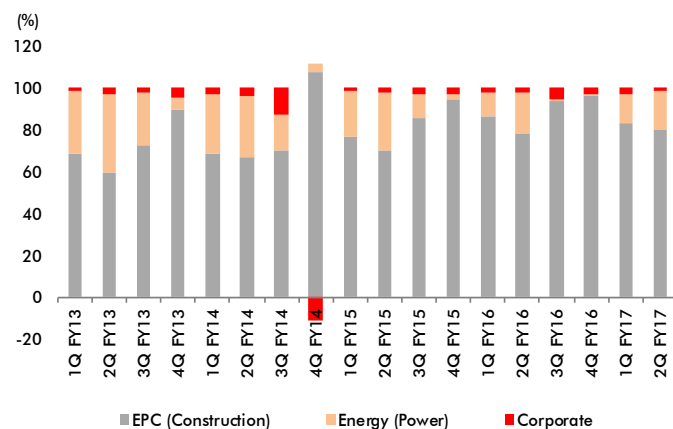


Exhibit 7: Quarterly EBITDA margin Trend

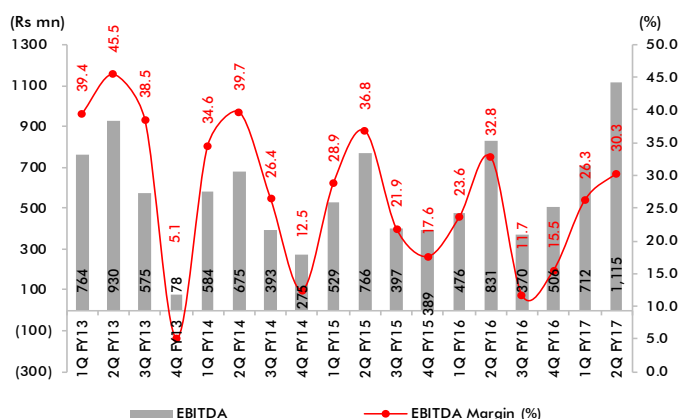


Exhibit 8: Quarterly profit trend

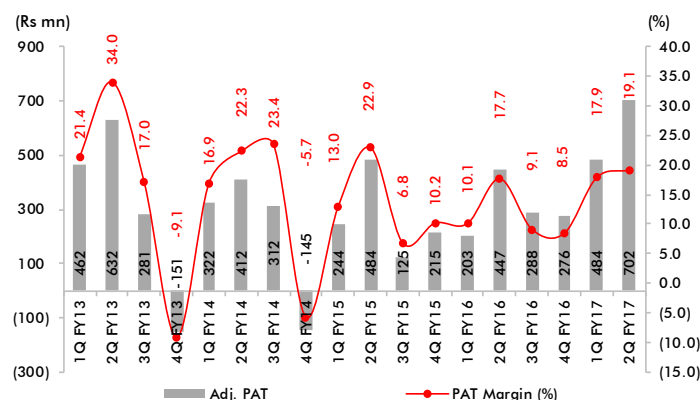


Exhibit 9: Quarterly EPC EBIT and EPC EBIT %

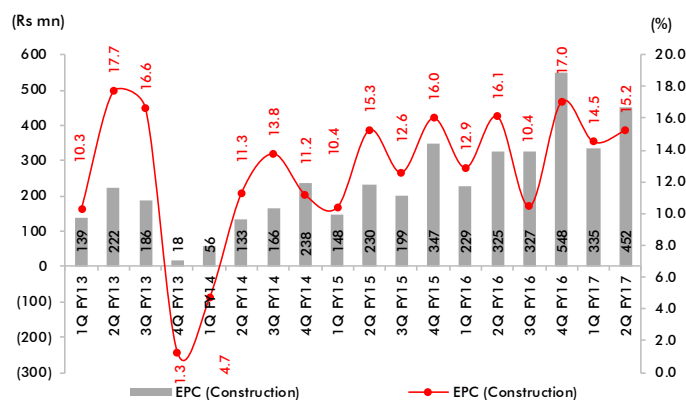


Exhibit 10: SOTP Valuations and PT based on FY18E

Business segment	Valuation methodology	Amount (Rs mn)	Per Share (Rs)
EPC	20x FY18E P/E	41,047	359
Wind power	DCF	6,180	54
Transmission business			
Jhajjar KT Transco	2x book value	760	7
Patran Power	1x book value	600	5
Total equity value		48,587	426
CMP			289
Upside (%)			47%

Source: Company, AMSEC Research

Financials (Consolidated)**(Rs mn)**

Profit & Loss Account						Cash Flow Statement					
Particulars	FY14	FY15	FY16	FY17E	FY18E	Particulars	FY14	FY15	FY16	FY17E	FY18E
Net sales	7,085	7,939	10,972	14,228	17,345	PBT	924	1,248	1,894	2,801	3,264
Other operating income						Non-cash adjustments	667	603	495	515	516
Consumption of materials	4,260	5,022	7,816	7,683	9,366	Changes in working capital	600	(1,590)	(1,206)	(1,169)	(167)
Staff Expenses	290	274	302	754	919	Interest Paid	454	465	443	383	323
Other operating expenses	609	529	652	2,512	3,386	Tax Paid & Other Adj	(79)	(277)	(862)	(560)	(653)
Total Expenditure	5,160	5,825	8,769	10,949	13,672	Cashflow from operations	2,566	449	764	1,970	3,283
EBITDA	1,925	2,114	2,203	3,279	3,673	Capital exp. & Advances	(359)	(91)	1,553	(150)	(150)
Depreciation	667	603	495	515	516	Change in investments	(1,224)	522	(199)	(800)	(800)
Operating profit	1,259	1,511	1,709	2,764	3,157	Other investing cashflow	-	-	-	-	-
Other income	120	202	375	420	430	Cashflow from investing	(1,583)	432	1,354	(950)	(950)
EBIT	1,379	1,713	2,083	3,184	3,587	Issue of equity	(0)	-	-	-	-
Interest	454	465	443	383	323	Issue/repay debt	(600)	(427)	(527)	(1,200)	(600)
Exceptional items	-	-	254	-	-	Interest Paid	(454)	(465)	(443)	(383)	(323)
Profit before tax	924	1,248	1,894	2,801	3,264	Dividends paid	(167)	(223)	(278)	(424)	(556)
Tax	38	185	487	560	653	Cashflow from financing	(1,221)	(1,115)	(1,248)	(2,007)	(1,479)
Reported net profit	887	1,063	1,407	2,241	2,611	Change in cash & cash eq	(238)	(234)	869	(987)	854
Minority interest	12	12	-	-	-	Opening cash & cash eq	718	481	247	1,116	129
Adjusted net profit	875	1,051	1,219	2,241	2,611	Closing cash & cash eq	481	247	1,116	129	983
Share O/s mn	57	57	57	114	114	Free cash flow to firm	2,207	359	2,317	1,820	3,133
EPS Rs (adjusted)	15.3	18.4	21.3	19.6	22.9						

Balance Sheet

Particulars	FY14	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS :					
Share Capital	114	114	114	228	228
Reserves	8,257	9,033	10,031	11,734	13,789
Minority Interest	193	199	-	-	-
Total Shareholders Funds	8,564	9,346	10,145	11,962	14,017
Non-Current Liabilities	6,086	5,656	5,130	3,930	3,330
Total borrowings	6,077	5,649	5,122	3,922	3,322
Deferred tax liability	9	7	8	8	8
Current Liabilities	1,848	1,812	3,262	4,132	4,990
Trade payables	1,787	1,657	3,081	3,937	4,752
Short term provisions	62	155	181	195	238
Total Equity & Liabilities	16,498	16,815	18,537	20,024	22,337
APPLICATION OF FUNDS :					
Non Current Assets	11,113	10,631	8,630	8,265	7,900
Goodwill	157	157	200	200	200
Gross block (Total)	13,247	13,335	10,907	11,057	11,207
Less : accumulated depreciatio	2,711	3,283	2,861	3,375	3,891
Net block (Total)	10,536	10,052	8,046	7,681	7,315
Capital work in progress	36	38	-	-	-
Noncurrent investment	384	384	384	384	385
Current Assets	5,385	6,183	9,907	11,759	14,437
Current investment	1,486	963	1,163	1,963	2,762
Inventories	118	63	379	117	238
Sundry debtors	2,060	3,449	4,963	5,847	7,366
Cash and bank	481	247	1,116	129	983
Short loans and advances	949	1,040	1,105	2,339	1,426
Others current assets	291	421	1,181	1,364	1,663
Total Assets	16,498	16,815	18,537	20,024	22,337
Net Working Capital*	1,570	3,160	4,366	5,535	5,702
Total Gross Debt**	6,077	5,649	5,122	3,922	3,322
Total Net Debt	4,110	4,439	2,843	1,830	(422)
Capital Employed***	14,641	14,996	15,267	15,884	17,340

* WC = CA-CL (Excl short term & Curr. Mat. Long term debt)

** Total Debt = Long Term + short Term + Curr. Mat. Of Long Term Debt

*** Capital Employed = NW + Total Debt

Ratios

Particulars	FY14	FY15	FY16	FY17E	FY18E
PER SHARE					
EPS Rs (adjusted)	15.3	18.4	21.3	19.6	22.9
CEPS Rs	27.2	29.2	33.3	24.1	27.4
Book Value Rs	146.6	160.2	177.7	104.8	122.8
VALUATION					
EV / Net Sales	2.9	2.6	1.7	2.4	1.9
EV / EBITDA	10.5	9.7	8.6	10.5	8.8
P / E Ratio	37.7	31.4	27.1	14.7	12.6
P / BV Ratio	2.0	1.8	1.6	2.8	2.4
GROWTH YOY%					
Sales Growth	1.2	12.1	38.2	29.7	21.9
EBITDA Growth	(17.9)	9.8	4.2	48.8	12.0
Net Profit Growth	(27.6)	19.9	32.4	59.3	16.5
PROFITABILITY (%)					
EBITDA / Net Sales	27.2	26.6	20.1	23.0	21.2
EBIT / Net sales	19.5	21.6	19.0	22.4	20.7
NPM / Total income	12.1	12.9	10.7	15.3	14.7
Raw Material/Net Sales	60.1	63.3	71.2	54.0	54.0
Int/PBIT	33.0	27.2	21.3	12.0	9.0
Core ROaNW	12.3	12.9	12.5	22.5	23.4
Core ROaCE	9.5	10.0	9.8	17.0	19.0
Tax / PBT	4.1	14.8	25.7	20.0	20.0
TURNOVER					
Net Working Cycle (Days)	81	145	145	142	120
Debtors Velocity (Days)	106	159	165	150	155
Inventory (Days)	6	3	13	3	5
Creditors Velocity (Days)	92	76	102	101	100
LIQUIDITY					
Gross Asset Ratio	0.5	0.6	0.9	1.3	1.6
Total Asset Ratio	0.4	0.5	0.6	0.7	0.8
Net Debt-Equity Ratio	0.5	0.5	0.3	0.2	(0.0)
Interest Coverage (x)	3.0	3.7	4.7	8.3	11.1
PAYOUT					
Payout %	18.8	20.9	19.8	18.9	21.3
Yield %	1.0	1.4	1.7	1.4	1.7

Source: Company, AMSEC Research; Note: PER for historical financials are adjusted for bonus issue of 1:1 announced in FY17

Recommendation rationale

Buy: Potential upside of	> +15% (absolute returns)
Accumulate:	> +5 to +15%
Reduce:	+5 to -5%
Sell:	< -5%
Not Rated (NR):	No investment opinion on the stock

Sector rating

Overweight:	The sector is expected to outperform relative to the Sensex.
Underweight:	The sector is expected to underperform relative to the Sensex.
Neutral:	The sector is expected to perform in line with the Sensex.

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