



VISIT NOTE

# TECHNO ELECTRIC & ENGINEERING

Power packed

India Equity Research | Engineering and Capital Goods



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Ideas create, values protect

Our recent interaction with Mr P.P. Gupta, CMD, Techno Electric (TEEC), strengthened our conviction on the company's bright prospects. Robust traction in the T&D EPC space, rising government funding support, increased states' spending, TBCB and reforms like UDAY are bound to propel the company. Moreover, management is committed to exit wind assets (recently sold 33MW) and merge Simran with TEEC to avail 80IA tax benefits. A capable management, favourable positioning in substation EPC jobs versus competition and prudent capital allocation strategy equip TEEC to outperform peers over the following 2-3 years. Maintain 'BUY' with a revised SOTP based target price of INR425 (earlier -INR395) as we roll forward on FY19E EPS, entailing 25% upside.

## T&D EPC business on strong turf; SEBs to spearhead spurt

Having clocked 35% plus growth in the EPC business in H1, management envisages 20% plus surge in H2FY17 riding a robust INR25bn order book. TEEC has prudently maintained focus on its core competence—substation EPC—wherein its market share has catapulted to ~15% from 5% 2 years ago in PGCIL ordering. Management anticipates SEBs, particularly from South states, to spearhead order intake momentum.

## Sticking to its capital allocation strategy

TEEC recently announced sale of 33MW of 162MW wind power assets for ~INR1.6bn, implying book value of 1.3-1.4x, in line with our estimate. Management is planning to sell the balance 12MW in SA to its subsidiary Simran and thereby merge the latter with TEEC. It has a clear focus on capital allocation over the long term and will continue to invest in stable return BOOT transmission projects targeting 15% equity IRR.

## Outlook and valuations: Preferred T&D bet; maintain 'BUY'

Selective approach to orders, efficient working capital management and strong potential uptick in T&D spending reinforce our conviction in TEEC. We estimate EPS CAGR of 25% plus over FY16-19, primarily led by EPC business. Maintain 'BUY/SO'. We value the EPC business at 19x on FY19 EPS. The stock currently trades at a consol P/E of 16.1x and 13.4x its FY18E and FY19E EPS.

### Financials

Year to March	FY16	FY17E	FY18E	FY19E
Revenue (INR mn)	10,972	14,223	17,700	20,235
Growth (%)	38.2	29.6	24.5	14.3
EBITDA (INR mn)	2,203	3,145	3,965	4,493
Net profit (INR mn)	1,406	1,888	2,451	2,939
Diluted EPS (INR)	12.3	16.5	21.5	25.7
EPS growth (%)	33.7	34.3	29.8	19.9
Diluted PE (x)	28.1	20.9	16.1	13.4
EV/EBITDA (x)	18.9	12.8	9.6	8.1
ROAE (%)	14.4	17.7	20.1	20.6

### EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

### MARKET DATA (R: TEEC.BO, B: TEEC IN)

CMP	: INR 346
Target Price	: INR 425
52-week range (INR)	: 362 / 209
Share in issue (mn)	: 114.2
M cap (INR bn/USD mn)	: 39 / 579
Avg. Daily Vol.BSE/NSE('000)	: 70.7

### SHARE HOLDING PATTERN (%)

	Current	Q3FY16	Q2FY16
Promoters *	58.0	58.0	58.0
MF's, FI's & BK's	16.5	17.7	22.8
FII's	9.3	8.1	2.4
Others	16.2	16.2	16.8
* Promoters pledged shares (% of share in issue)	:	NIL	

### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Capital Goods Index
1 month	14.9	2.3	5.1
3 months	13.3	(1.9)	(0.2)
12 months	37.9	11.2	12.7

### Swarnim Maheshwari

+91 22 4040 7418  
swarnim.maheshwari@edelweissfin.com

### Amit Mahawar

+91 22 4040 7451  
amit.mahawar@edelweissfin.com

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## Evolving power system necessitates higher capex for transformation

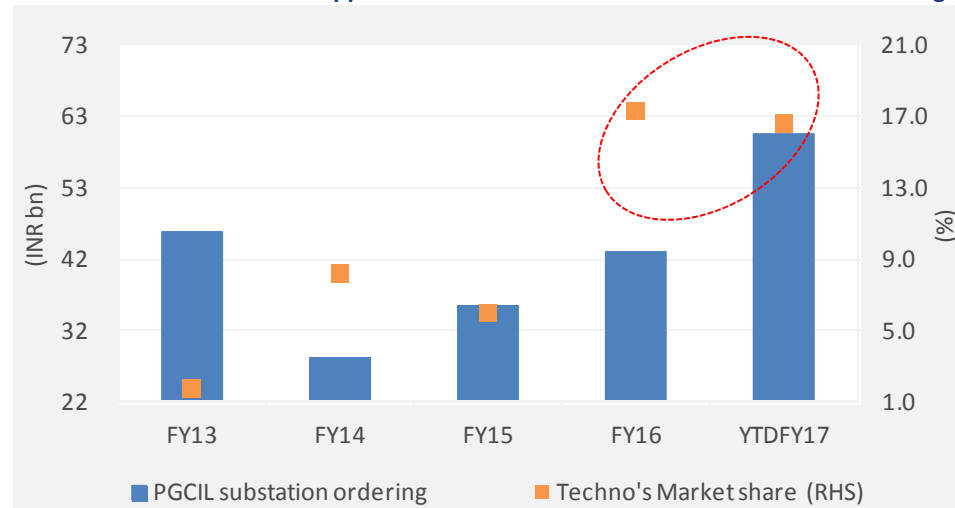
Changing production and consumption centers is expected to drive investments in transmission lines. TEEC expects the ratio of transmission line work to transforming work to change from 80:20 currently to 65:35 in favour of sub-stations over the next 4-5 years as the entire country gets covered w.r.t transmission line network and focus is sharpened on quality of power.

PGCIL is more focused on execution and hence the delay in placing new orders. Management anticipates SEBs to invest more than PGCIL and states like MP, Rajasthan, Chhattisgarh, AP and Telangana are a few SEBs which are seeing strong ordering traction.

## Techno has been selective while improving its market share

TEEC has maintained focus on its core competence—sub-station EPC—wherein it has strengthened its position by improving market share to ~15% versus 5% 2 years ago in PGCIL's ordering. Deriving 65-70% business from CPSUs (PGCIL+NTPC), it ventured into a large number of GIS sub-stations leveraging on its complementary equation with Chinese equipment manufacturers, where Chinese players bid as the lead and TEEC acts as a consortium partner with EPC capability. This has helped TEEC gain a substantial leg up in its market share in PGCIL substation.-+

**Chart 1: Tehcno Electric has upped its market share to ~15% levels in PGCIL awarding**



Source: PGCIL, Edelweiss research (YTD 17 excludes HVDC order)

**Table 1: SOTP valuation**

Business Segments	Particulars	Amount (INR mn)	Valuation Method	Multiple (x)	Value (INR mn)	Value per share (INR)
EPC	PAT – FY19E	2,005	P/E	19	37,495	328
Energy	Book Value	4,183	P/B	1.4	5,856	51
Project	Book Value	953	P/B	1.5	1,429	13
Cash	Discounted with 15% COE	4,902			3,707	32
<b>Total Fair Value</b>						<b>425</b>

Source: Edelweiss research

## Company Description

TEEC was incorporated in 1963 by the Mohankas to provide EPC services to core sector industries in India. The company went public in 1973. In 1983, it was taken over by Mr. P.P. Gupta and Mr. C.L. Chamaria. Mr. Gupta became the sole promoter of TEEC after Mr. Chamaria's resignation from the board in 1995. The company is headquartered in Kolkata. TEEC boasts of an experienced team of over 175 engineers backed by 225 skilled professionals and 100 staff members. More than 80% of the company's business comes from repeat customers, a testimony to its execution capability. TEEC is a leading EPC services company in India's power sector and provides services to all the 3 industry segments—generation, transmission and distribution. It was involved in setting up (in one capacity or other) over 50% of the country's thermal power generation capacity and a major portion of the national power grid. It also possesses specific domain knowledge that enables it to serve the EPC needs of power, steel, fertiliser, metals and petrochemicals sectors, among others. It ventured into renewable energy via acquisition of wind assets in 2009. Its total installed capacity currently stands at 130MW (having sold 44.45MW in May 2015 and 33MW in Jan 17) with 12MW in standalone entity and balance 118MW in subsidiary Simran Wind Projects. In 2010, the company ventured into BOOT projects via the JV route as it bagged transmission project worth INR4.4bn in Haryana for a concession period of 25 years extendable by another 10 years. Subsequently, TEEC bagged another project worth INR2bn in Punjab in 2013. The company plans to extend / scale up this business further.

## Investment Theme

### INR2.6tn opportunities in EPC across power, industrial segments

Given the government's sharpened focus on cutting AT&C losses and thrust on renewables, we expect T&D spending to turn the spotlight on higher kV substations, in addition to spending on the green energy corridor to connect renewable energy to the grid. We envisage generation, transmission and distribution to throw up total EPC opportunity of INR2,602bn (INR520bn p.a.) over the next 5 years for TEEC. We anticipate it to corner ~10% of this. Uptick in industrial and exports would be over and above this.

### Competitive MOAT: Selective approach with eye on RoE, cash flows

Engineering expertise to handle complex jobs is TEEC's forte. Moreover, the company is extremely selective in project bidding given its focus on complex jobs which normally entail higher profitability and cash flows. It bids for projects funded by either bilateral, multilateral or government funding agencies like PFC or REC to ensure reliable payments and cash flows.

## Key Risks

- Delayed ordering, execution in power sector, currency risk
- Deffered uptick in industrial capex due to contagion
- Heightened competitive intensity could impact profitability
- Lower utilisation and evacuation issues in wind power assets
- Delay in BOOT projects

## Financial Statements-Consolidated

### Key Assumptions

Year to March	FY16	FY17E	FY18E	FY19E
<b>Macro</b>				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.8	5.0	5.2
Repo rate (exit rate)	6.8	6.0	5.8	5.8
USD/INR (Avg)	65.0	67.5	69.0	69.0
<b>Company</b>				
Order intake growth (%)	-	10.0	10.0	10.0
Revenue growth (%)	51.8	26.6	28.0	14.7
EBIT Margins (%)	14.1	14.2	15.2	15.4
Wind capacity (MW)	161.8	161.8	128.8	128.8
PLF (%)	16.0	19.5	21.0	22.0
Capex (INR mn)	(1,920)	150	150	150

### Income statement

(INR mn)

Year to March	FY16	FY17E	FY18E	FY19E
Income from operations	10,972	14,223	17,700	20,235
Materials costs	7,816	9,875	12,265	14,087
Employee costs	302	346	403	469
Other mfg expenses	652	857	1,068	1,187
Total operating expenses	8,769	11,078	13,736	15,743
EBITDA	2,203	3,145	3,965	4,493
Depreciation	495	544	582	591
EBIT	1,709	2,601	3,383	3,902
Add: Other income	629	328	323	437
Less: Interest Expense	443	475	441	380
Profit Before Tax	1,894	2,454	3,265	3,958
Less: Provision for Tax	487	558	815	1,021
Less: Minority Interest	2	13	14	17
Associate profit share	-	6	15	19
Reported Profit	1,406	1,888	2,451	2,939
Adjusted Profit	1,406	1,888	2,451	2,939
Shares o /s (mn)	114	114	114	114
Adjusted Basic EPS	12.3	16.5	21.5	25.7
Diluted shares o/s (mn)	114	114	114	114
Adj. Diluted EPS (INR)	12.3	16.5	21.5	25.7
Adjusted Cash EPS	16.6	21.3	26.6	30.9
Dividend per share (DPS)	5.0	5.0	5.0	4.0
Dividend Payout Ratio(%)	48.7	36.3	27.9	18.6

### Common size metrics

Year to March	FY16	FY17E	FY18E	FY19E
Operating expenses	79.9	77.9	77.6	77.8
Materials costs	71.2	69.4	69.3	69.6
Staff costs	2.7	2.4	2.3	2.3
S G & A expenses	5.9	6.0	6.0	5.9
Depreciation	4.5	3.8	3.3	2.9
Interest Expense	4.0	3.3	2.5	1.9
EBITDA margins	20.1	22.1	22.4	22.2
Net Profit margins	12.8	13.4	13.8	14.5

### Growth ratios (%)

Year to March	FY16	FY17E	FY18E	FY19E
Revenues	38.2	29.6	24.5	14.3
EBITDA	5.9	42.7	26.1	13.3
Adjusted Profit	33.7	34.3	29.8	19.9
EPS	33.7	34.3	29.8	19.9

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17E	FY18E	FY19E	
Share capital	114	114	114	114	
Reserves & Surplus	10,031	11,234	13,000	15,391	
Shareholders' funds	10,145	11,349	13,114	15,506	
Minority Interest	-	13	27	44	
Short term borrowings	1,015	1,015	1,015	1,015	
Long term borrowings	3,068	3,568	2,568	2,768	
Total Borrowings	4,084	4,584	3,584	3,784	
Long Term Liabilities	98	98	98	98	
<b>Sources of funds</b>	<b>14,334</b>	<b>16,051</b>	<b>16,831</b>	<b>19,439</b>	
Gross Block	10,906	11,056	11,206	11,356	
Net Block	8,046	7,652	7,220	6,779	
Intangible Assets	200	200	200	200	
Total Fixed Assets	8,246	7,852	7,420	6,979	
Non current investments	623	873	723	973	
Cash and Equivalents	2,040	3,854	4,306	5,827	
Inventories	379	271	336	386	
Sundry Debtors	4,963	6,235	7,759	8,870	
Loans & Advances	1,105	1,161	1,335	1,535	
Other Current Assets	1,181	1,181	1,181	1,181	
Current Assets (ex cash)	7,628	8,847	10,611	11,972	
Trade payable	2,875	3,528	4,383	4,603	
Other Current Liab	1,327	1,846	1,846	1,709	
Total Current Liab	4,202	5,374	6,229	6,312	
Net Curr Assets-ex cash	3,426	3,473	4,382	5,660	
Net Deferred tax	8	8	8	8	
<b>Uses of funds</b>	<b>14,334</b>	<b>16,051</b>	<b>16,831</b>	<b>19,439</b>	
BVPS (INR)	88.8	99.4	114.9	135.8	

Free cash flow		(INR mn)			
Year to March	FY16	FY17E	FY18E	FY19E	
Reported Profit	1,406	1,888	2,451	2,939	
Add: Depreciation	495	544	582	591	
Interest (Net of Tax)	329	367	331	282	
Others	(321)	121	124	115	
Less: Changes in WC	1,583	47	909	1,279	
Operating cash flow	325	2,874	2,578	2,648	
Less: Capex	(1,920)	150	150	150	
<b>Free Cash Flow</b>	<b>2,245</b>	<b>2,724</b>	<b>2,428</b>	<b>2,498</b>	

## Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Techno Electric & Engineering	579	20.9	16.1	3.5	3.0	17.7	20.1
Kalpataru Power	604	15.5	13.6	1.6	1.5	11.1	11.5
KEC International	534	14.4	12.0	2.1	1.8	15.6	16.3
Median	-	15.5	13.6	2.1	1.8	15.6	16.3
AVERAGE	-	16.9	13.9	2.4	2.1	14.8	15.9

Source: Edelweiss research

Cash flow metrics				
Year to March	FY16	FY17E	FY18E	FY19E
Operating cash flow	325	2,874	2,578	2,648
Investing cash flow	1,994	(400)	-	(400)
Financing cash flow	(1,451)	(660)	(2,125)	(728)
Net cash Flow	868	1,814	453	1,520
Capex	1,920	(150)	(150)	(150)
Dividend paid	(309)	(685)	(685)	(548)

## Profitability and efficiency ratios

Year to March	FY16	FY17E	FY18E	FY19E
ROAE (%)	14.4	17.7	20.1	20.6
ROACE (%)	16.5	19.4	22.7	24.1
Inventory Days	10	12	9	9
Debtors Days	140	144	144	150
Payable Days	99	118	118	116
Cash Conversion Cycle	51	37	36	43
Current Ratio	2.3	2.4	2.4	2.8
Debt/EBITDA (x)	1.9	1.5	0.9	0.8
Gross Debt/Equity	0.4	0.4	0.3	0.2
Adjusted Debt/Equity	0.4	0.4	0.3	0.2
Interest Coverage Ratio	3.9	5.5	7.7	10.3

## Operating ratios

Year to March	FY16	FY17E	FY18E	FY19E
Total Asset Turnover	0.8	0.9	1.1	1.1
Fixed Asset Turnover	0.6	1.8	2.3	2.8
Equity Turnover	2.3	2.6	1.4	1.4

## Valuation parameters

Year to March	FY16	FY17E	FY18E	FY19E
Adj. Diluted EPS (INR)	12.3	16.5	21.5	25.7
Y-o-Y growth (%)	33.7	34.3	29.8	19.9
Adjusted Cash EPS (INR)	16.6	21.3	26.6	30.9
Diluted P/E (x)	28.1	20.9	16.1	13.4
P/B (x)	3.9	3.5	3.0	2.5
EV / Sales (x)	3.8	2.8	2.2	1.8
EV / EBITDA (x)	18.8	12.8	9.8	8.3
Dividend Yield (%)	1.4	1.4	1.4	1.2

## Additional Data

### Directors Data

P P Gupta	Chairman	K K Rai	Independent Non-Executive Director
K M Poddar	Independent Non-Executive Director	K Vasudevan	Independent Non-Executive Director
S N Roy	Independent Non-Executive Director	VD Mohile	Independent Non-Executive Director
Ankit Saraiya	Director	Avantika Gupta	Director
Dr. Rajendra Prasad Singh	Independent Director		

Auditors - S.S. Kothari & Co

### Holding – Top10

	Perc. Holding		Perc. Holding
Varanasi commercial	21.36	Kusum industrial gas	12.41
Techno leasing & fin	12.08	Dsp blackrock invest	6.09
Techno power project	5.61	J p financial srvs p	5.09
L&t investment manag	3.54	Grantham mayo van ot	3.06
Government pension f	2.63	Kotak mahindra	2.55

*\*in last one year*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
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No Data Available

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
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No Data Available

*\*in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
ABB India	REDUCE	SP	L	Bajaj Electricals	HOLD	SP	M
Bharat Forge	BUY	SO	M	Bharat Heavy Electricals	BUY	SO	M
Crompton Greaves	HOLD	SP	M	Cummins India	BUY	SO	L
Greaves Cotton	BUY	SO	M	Havells India	BUY	SP	M
Kalpataru Power	BUY	SO	M	KEC International	BUY	SP	M
Larsen & Toubro	BUY	SO	M	Praj Industries	BUY	None	None
Ramkrishna Forgings	BUY	SP	M	Siemens	REDUCE	SP	L
TD Power Systems	BUY	None	None	Techno Electric & Engineering	BUY	SP	M
Thermax	REDUCE	SP	L	Triveni Turbine	BUY	None	None
VA Tech Wabag	BUY	None	None	Voltas	BUY	SP	L

## ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

## RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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**Edelweiss Securities Limited**, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.

Board: (91-22) 4009 4400, Email: [research@edelweissfin.com](mailto:research@edelweissfin.com)

Manoj Bahety

Deputy Head Research

[manoj.bahety@edelweissfin.com](mailto:manoj.bahety@edelweissfin.com)

## Coverage group(s) of stocks by primary analyst(s):

ABB India, Bharat Heavy Electricals, Bharat Forge, Bajaj Electricals, Crompton Greaves, Greaves Cotton, Havells India, KEC International, Cummins India, Kalpataru Power, Larsen & Toubro, Praj Industries, Ramkrishna Forgings, Siemens, TD Power Systems, Techno Electric & Engineering, Thermax, Triveni Turbine, VA Tech Wabag, Voltas

### Recent Research

Date	Company	Title	Price (INR)	Recos
03-Jan-17	<b>Bharat Forge</b>	Packing a potent punch; <i>Company Update</i>	922	Buy
02-Jan-17	<b>KEC International</b>	Earnings tempo to sustain; <i>Visit Note</i>	140	Buy
08-Dec-16	<b>Crompton Greaves</b>	Business consolidation gets far more challenging; <i>Result Update</i>	62	Hold

### Distribution of Ratings / Market Cap

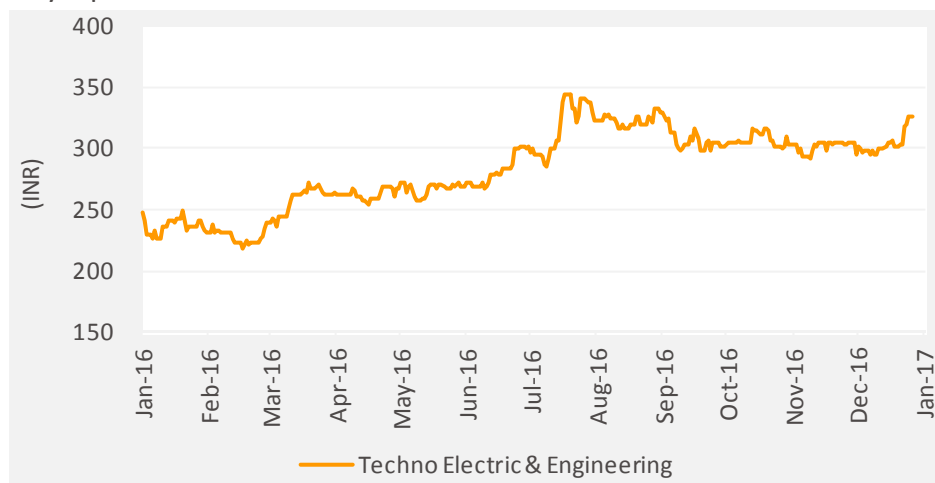
#### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

### One year price chart





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