



CMP* (Rs)	343
Upside/ (Downside) (%)	20
Bloomberg Ticker	TEEC IN
Market Cap. (Rs bn)	39.2
Free Float (%)	42.0
Shares O/S (mn)	114.2

## Techno Electric & Engineering

### Light Asset Model; Superior Returns

Techno Electric & Engineering (TEEC) is present across entire power sector value chain i.e. generation, transmission and distribution. It is engaged in three businesses i.e. EPC/Asset Ownership/Operations & Maintenance. Its current order book of Rs24.3bn, renders robust revenue visibility. **As strong order book, likely ramp-up in T&D capex and robust FCF generation, high EBITDA margins, augur well for TEEC, we initiate coverage on the stock with BUY recommendation and an SOTP-based Target Price of Rs411.**

#### Key Investment Highlights

- EPC Biz to Fuel Growth:** Revenue from EPC division – which contributed 92% & 65% to TEEC's revenues & EBITDA, respectively in FY16 – is likely to see 23.5% CAGR over FY16-19E, while RoCE would remain high way ahead of competitors. With 60% share in 765kV EhV substation segment, TEEC is well-placed to tap opportunities in EPC segment during 13th FYP period. Further, substation ordering of certain SEBs is also likely to see healthy growth especially in Rajasthan, Madhya Pradesh, Tamil Nadu, Chhattisgarh & Telangana. Considering increased T&D spending, huge capex by PGCIL and imminent opportunities under "Green Energy Corridor" project, we believe that TEEC is set to tap opportunities in power T&D.
- BOOT Projects – Offer Steady Annuity Cash-flow:** Currently, TEEC has 2 BOOT projects, which provide steady annuity cash flows. It plans to bid for projects having sizeable EPC proportion, which will enable it to recoup most of equity investment during construction phase itself. TEEC could look at asset monetisation of such projects at an opportune time.
- Other Emerging Opportunities:** TEEC emerged as the first service provider to win comprehensive STATCOM orders worth Rs2.68bn, successful completion of which will serve as a pre-qualification for TEEC to secure larger orders. Under "Green Energy Corridor" project, TEEC expects to execute ~3-5% of solar installations by CPSUs through EPC route in next 5 years.

#### Outlook & Valuation

We believe that the expected ramp-up in overall investments in T&D augurs well for TEEC's EPC business, while prudent capital allocation with synergy from project business will boost growth and profitability. Using SOTP methodology, we arrived at a fair value of Rs393, valuing EPC business at 18x FY19E EPS, wind business at 1.0x equity book value, BOOT projects at 1.3-1.5x equity book value and cash at 1.0x book value. We initiate coverage on the stock with BUY recommendation and Target Price of Rs411.

Key Financials (Rs mn)	FY16*	FY17E	FY18E	FY19E
Net sales	10,972	14,218	17,579	20,944
PAT	1,406	1,880	2,431	2,973
EPS (Rs)	12.3	16.5	21.3	26.0
PE (x)	27.9	20.8	16.1	13.2
EV/EBITDA (x)	17.8	12.7	10.2	8.5
P/BV (x)	3.9	3.4	3.0	2.5
ROCE (%)	17.7	19.3	21.8	23.2
RONW (%)	13.9	16.3	18.3	19.0

Source: Company, RSec Research: Note: \*Adjusted for Bonus Shares

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	11.7	12.8	24.4
Relative to Nifty	7.4	2.5	23.1

Shareholding Pattern (%)	Jun'16	Sep'16
Promoter	58.0	58.0
Public	42	42.0

#### 1 Year Stock Price Performance



Note: \* CMP as on January 11, 2017

Research Analyst: Rupesh Sankhe

Contact: (022) 3320 1606

Email: rupesh.sankhe@relianceada.com



CMP (Rs)	343
Upside/ (Downside) (%)	20
Bloomberg Ticker	TEEC IN

## Investment Rationale

### EPC Business (92% of Revenue) to Fuel Growth

On the back of huge opportunities across power T&D space, we expect TEEC's revenue from EPC division will clock 23.5% CAGR over FY16-19E. With order book of Rs24.3bn (providing strong earning visibility) and 60% share in 765kV EhV substation segment, TEEC is well-placed to tap opportunities in the segment from PGCIL and select SEBs during 13th Plan period. Further, repeat customers make up >80% of order backlog, which testifies TEEC's impeccable execution record.

- ▶ **Increased T&D Spending:** In Industrial space, tie-up with Canmec Industriel (Canada) equips TEEC to serve EPC requirements of power-guzzling industrial units via high precision fabrication and machining jobs. While EPC activity in power generation remains subdued, transmission bottlenecks have spurred T&D spending, which is expected to top Rs5.6trln in next 5 years. Given the government's thrust focus on cutting AT&C losses and thrust on renewables, we expect T&D spending would turn the spotlight on higher kV substations.
- ▶ **Huge Capex by PGCIL:** In Transmission space, PGCIL is estimated to spend Rs1.4trln during 13th Plan period (FY17-22) with focus on specific areas i.e. High Capacity Power Transmission Corridor (HCPTC), Grid Strengthening & Green Energy Corridor etc.
- ▶ **Green Energy Corridor Project:** Under the project – which involves an estimated outlay of Rs430bn to facilitate flow of renewable energy into National Grid – TEEC expects to execute ~3-5% of installations by CPSUs via EPC route in next 5 years. In generation, while TEEC has capability to set up CPPs up to 250MW, in T&D space, 765kV substation projects are its forte, besides distribution projects.

*We Believe that TEEC is well-placed to tap opportunities in 765kV EhV substation segment with order book of Rs24.3bn and 60% share in 765kV segment.*

*Tie-up with Canmec Industriel of Canada enables TEEC to serve EPC requirements of power-guzzling industrial units through high precision fabrication and machining jobs. While EPC activity in power generation remains subdued, transmission bottlenecks have spurred T&D spending, which is expected to top Rs5trln in*

*In Transmission space, PGCIL is estimated to spend Rs1.4trln during 13th Plan period (FY17-22) with focus on specific areas i.e. High Capacity Power Transmission Corridor (HCPTC), Grid Strengthening & Green Energy Corridor etc.*

*Under Green Energy Corridor Project, TEEC expects to execute ~3-5% of installations by CPSUs via EPC route in next 5 years.*

### Exhibit 1: Un-executed Order Value as on Dec'16

Name of the client	Rs mn	%
Power Grid Corporation of India	18,300	75.3
North Bihar Power Distribution Co	1,600	6.6
NTPC	2,075	8.5
Rajasthan Rajya Vidyut Prasaran Nigam	1,575	6.5
Bihar State Electricity Board	160	0.7
APTRANSCO, Hyderabad	240	1
Others	350	1.4
<b>Total</b>	<b>24,300</b>	<b>100</b>

Source: Company, RSec Research



CMP (Rs)	343
Upside/ (Downside) (%)	20
Bloomberg Ticker	TEEC IN

## BOOT Projects – Offer Steady Annuity Cash-flow

TEEC ventured into T&D projects on BOOT/BOOM basis in 2010. It plans to bid for projects having sizeable EPC proportion, which will enable it to recoup most of equity investment during construction phase itself. TEEC could look at asset monetisation of such projects at an opportune time.

**BOOT Projects:** TEEC – having the following 2 BOOT projects, which provide steady annuity cash flows once the debt is repaid – is looking forward to add 1-2 projects annually targeting a portfolio of 5 projects by FY17E-end.

- ▶ **Jhajjar KT Transco (Haryana):** TEEC – which pioneered BOOT transmission model at state level – was the first successful network bidder. The 400kV project – the first transmission project to get viability gap funding from Central Government – was commissioned by implementing agency i.e. Jhajjar KT Transco (51:49 JV of Kalpataru Power & TEEC) in March 2012 in record 15 months. Current (post-inflation) revenue from the project stands at Rs580mn per annum.
- ▶ **Patran Transmission Company (Punjab):** This Build, Own, Operate & Maintain (BOOM) transmission project (Rs2bn) commissioned in June 2016. Implementing company acquired by TEEC from PFC Consulting under PoC mechanism of CERC. Expected annual revenue to TEEC is pegged at Rs20mn. Projected income over the complete concession period of 35 years is estimated at Rs10bn.

### Exhibit 2: EPC Financials (Rs mn)

Rs mn	FY12	FY14	FY15	FY16
Revenue	7,041	5,705	6,681	10,143
EBITDA	1,081	602	938	1,449
PAT	829	501	663	946
Cash surplus	837	510	675	1,000
ROCE (%)	90	62	81	108

Source: Company, RSec Research

**Wind Assets (8% of Revenue):** TEEC invested Rs4.7bn in equity and debt (Rs6.4bn) to set up 207MW wind assets. However, the wind business is currently battling multiple challenges i.e. power evacuation, elongated receivables days and lack of demand for Renewable Energy (RE) certificates, which led to drop in profitability with RoCE of ~10%, singeing TEEC's overall performance. Earlier, TEEC sold part of its wind assets (44.45MW) in May 2015 and a complete exit is on the anvil. In order to address the capital allocation issue, TEEC is now planning to divert cash flow generated from the EPC business to project business (IRR at 14-15%), wherein it has planning to leverage its EPC domain expertise instead of wind business (IRR of 11%).

*With a view to addressing capital allocation issue, TEEC is planning to divert cash flow generated from the EPC business to project business (IRR at 14-15%), wherein it has planning to leverage its EPC domain expertise instead of wind business (IRR of 11%).*

### Exhibit 3: Overview of Wind Assets

(Rs mn)	TEEC	Simran Wind Project	
Capacity	45 MW	6 MW	111.90 MW
Date of Acquisition / Commissioning	FY10	FY10	FY12
Location	Karnataka (12MW), TN (33MW)	Karnataka	Tamil Nadu (111.90 MW)
PLF	18% - 26%	19% - 26%	19% - 26%
Tariff	Rs3.40 (Karnataka), Rs3.39 (TN)	Preferential tariff –Rs 3.40	APPC tariff – Rs 3.12 (TN)
GBI benefit			111.9 MW registered

Source: Company, RSec Research



CMP (Rs)	343
Upside/ (Downside) (%)	20
Bloomberg Ticker	TEEC IN

**Exhibit 4: Financial Overview of Wind Assets**

Rs mn	FY13	FY15	FY16
Revenue	1,842	1,258	829
EBITDA	1,773	1,143	764
PAT	635	283	393
Cash generated	1,282	874	870
Units generated (in mn)	472	300	188
Realization Rs/unit	3.9	4.2	4.4

Source: Company, RSec Research

**Well-placed to Cash in Emerging Opportunities in EPC Space**

**STATCOM Space:** Static Synchronous Compensator (STATCOM) space offers huge opportunity for TEEC, as the Government mulls installing 50 STATCOMs with total investment of ~Rs80bn over a period of 3-5 years. TEEC emerged as the first service provider to win comprehensive STATCOM orders aggregating Rs2.68bn at Solapur, Satna & Aurangabad, jointly with Rongxin of China. This will serve as pre-qualification credential for TEEC for securing big-ticket orders in the medium term. Further, the Government plans to roll out "Green Energy Corridor" project with an estimated outlay of Rs430bn to facilitate the flow of renewable energy into National Grid. TEEC expects to execute ~3-5% of installations by CPSUs through EPC route in next 5 years.

**Sub Transmission System in North Eastern States:** PGCIL has been given mandate to build sub-transmission systems of 220/132kV in six North East States with an estimated outlay of Rs150bn in next 3 years. TEEC has bagged order for Rs3.5bn to build GIS sub-station in Assam & Meghalaya under World Bank funded NER Power System Improvement Project.

**Solar Power Installation:** The Government mulls increasing the country's solar power capacity – which stood at 6GW as of FY16 – to 100GW by 2022 with an estimated outlay of Rs6,000bn. Out of total targeted capacity, at least 25GW installation is expected to come via EPC route translating to an opportunity of Rs1,500bn. NTPC alone is expected to execute 10GW installation in next 5 years. TEEC expects to execute ~3-5% of installations by CPSUs via EPC route in next 5 years.

Asian Development Bank (ADB) would provide US\$1bn loan for Green Energy Corridors for transmission lines for carrying electricity from renewable energy projects. TEEC is amongst the first few companies to get order worth Rs60bn for sub-station package at Chittorgarh, Tuticorin, Ajmer & Bikaner under Green Energy Corridors project. The Company expects to secure more orders under this flagship project, going forward.

*With a view to addressing capital allocation issue, TEEC is planning to divert cash flow generated from the EPC business to project business (IRR at 14-15%), wherein it has planning to leverage its EPC domain expertise instead of wind business (IRR of 11%).*

*STATCOM space offers huge opportunity for TEEC, as the Government is planning to install 50 STATCOMs with total investment of ~Rs80bn over a period of 3-5 years.*

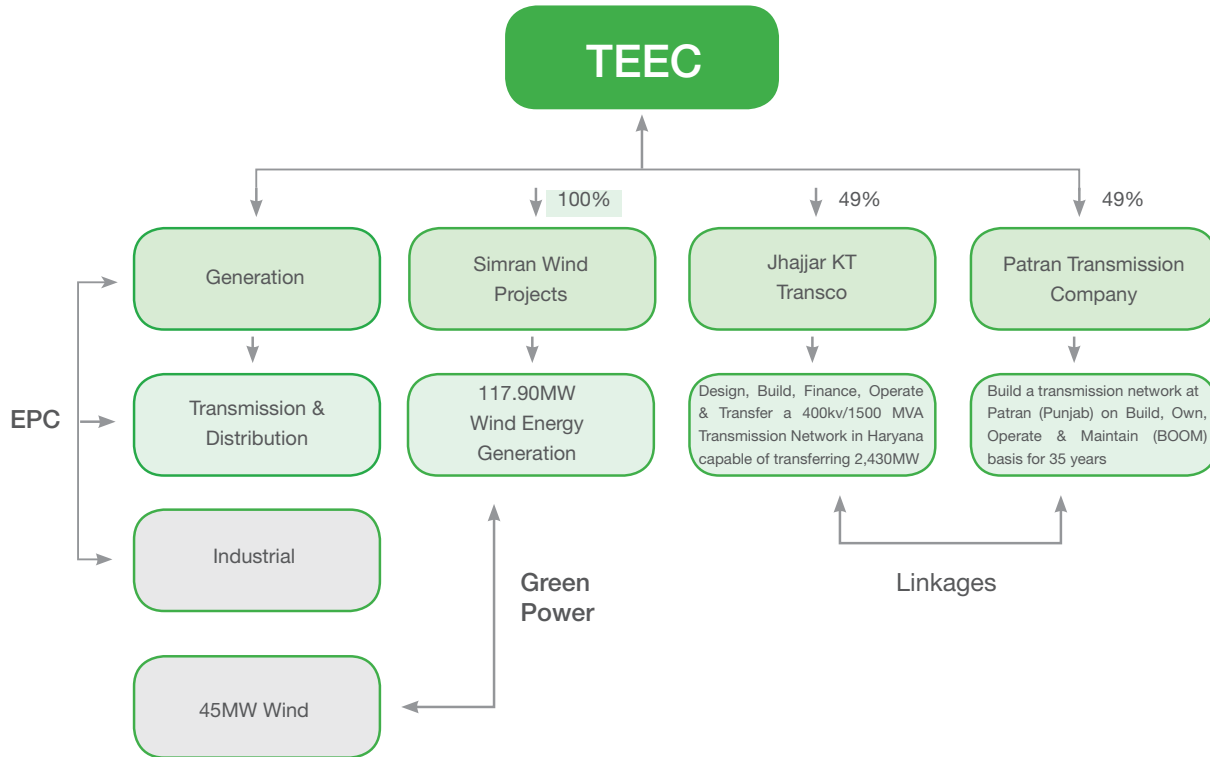
*TEEC has secured order worth Rs3.5bn to build GIS sub-station in Assam & Meghalaya under World Bank funded NER Power System Improvement Project.*

*The Govt mulls increasing India's solar power capacity to 100GW by 2022 (from 6GW in FY16) with an estimated outlay of Rs6,000bn, out of the total targeted capacity, at least 25GW installation is expected to come via EPC route translating to an opportunity of Rs1,500bn. TEEC expects to execute ~3-5% of installations by CPSUs via EPC route in next 5 years.*



CMP (Rs)	343
Upside/ (Downside) (%)	20
Bloomberg Ticker	TEEC IN

Exhibit 5: TEEC Operating Structure



Source: Company, RSec Research



CMP (Rs)	343
Upside/ (Downside) (%)	20
Bloomberg Ticker	TEEC IN

### Outlook & Valuation

We believe that the expected ramp-up in overall investments in T&D augurs well for TEEC's EPC business, while prudent capital allocation with synergy from project business will boost growth and profitability. Using SOTP methodology, we arrived at a fair value of Rs393, valuing EPC business at 18x FY19E EPS, wind business at 1.0x equity book value, BOOT projects at 1.3-1.5x equity book value and cash at 1.0x book value. We initiate coverage on the stock with BUY recommendation and Target Price of Rs411.

Exhibit 6: SOTP valuation

Business Segments	Valuation Methodology	Rs (mn)	Per share (Rs)	Stake (%)
EPC	18x FY19 P/E	37,811	331	100
Wind Power	1x Book Value	5224	46	100
Transmission Business				
Jhajjair KT	1.5x Book Value	564	5	49
Patran Power	1.3x Book Value	723	6	100
Cash and investment		2,659	23	
Rs per share			411	

Source: Company, RSec Research

Exhibit 7: 1-Year Forward P/E Band



Source: ACE Equity, RSec Research

Exhibit 8: 1-Year Forward P/B Band



Source: ACE Equity, RSec Research



CMP (Rs)	343
Upside/ (Downside) (%)	20
Bloomberg Ticker	TEEC IN

## Risks & Concerns

- ▶ **Delays in Project Execution:** As transmission projects are usually susceptible to delays given hurdles relating to land acquisition and delayed payments by the SEBs, any delay in commissioning of capacities may lead to an extension in implementation schedule and thus lower revenue booking and increase cost.
- ▶ **Receivables & Working Capital Risks:** Working capital requirement may increase in an event of delayed payments by PGCIL/SEBs.

## Company Background

Kolkata- headquartered Techno Electric & Engineering Company (TEEC) – incorporated in 1963 – is a prominent Indian Engineering, Procurement & Construction (EPC) Company engaged in power generation and transmission PPP linkages with strong track record of timely completion of projects. Its major business segments comprise EPC for power sector, transmission BOT projects and power generation (wind power). Its businesses are divided into three main segments: EPC, Green Power, BOOT, & BOOM Projects. The scope of work includes turnkey projects ranging from complete power generating plants to system packages for plant. TEEC also undertakes EPC work for electrical system across generation, T&D up to 765kV and customised power solutions for industries. Though TEEC primarily caters to domestic market, it has recently forayed into African region (EPC segment). It has wind power capacity of 207.35MW in Tamil Nadu & Karnataka. TEEC – which has completed and delivered over 280 projects – has an impressive clientele with customers in central, state utilities and industries namely: PGCIL, BHEL, NTPC, NALCO, CESC, HPGC, OPGC, MSEB, TNEB, GRIDCO, NHPC, DVC, ABB, Alstom, Reliance Energy, and Hindalco, Vedanta Aluminium etc.

### Exhibit 9: Board Members & Key Management Personnel

Name	Designation	Brief Profile
P P Gupta	Managing Director	Mr. Gupta, BE, MBA from IIM (Ahmedabad), was associated with the Planning Commission, BHEL, ANZ Grindlays Bank.
Ankit Saraiya	Non Independent & Non Executive Director	Mr. Saraiya has domain expertise in financial and commercial aspects and experience of over 5 years in the related field.
Avantika Gupta	Non Independent & Non Executive Director	Ms. Gupta has over 2 years of experience in financial and commercial domains.
K K Rai	Independent Non-Executive Director	Mr. Rai is a retired banking professional having 40 years banking experience. He served as the Executive Director of Allahabad Bank from 2001 to 2004.
K M Poddar	Independent Non-Executive Director	Mr. Poddar is a renowned industrialist and has more than 45 years of vast experience.
K Vasudevan	Independent Non-Executive Director	Mr. Vasudevan is a member of the National Committee on Power of CII and was the past President of Indian Electrical & Electronics Manufacturers Association.
S N Roy	Independent Non-Executive Director	Mr. Roy, BE from IIT, Kharagpur, started his career with Indian Oil; joined BHEL in 1978 and retired as ED in 2003.
RP Singh	Additional Director	Dr. Singh, former MD of PGCIL, has served TISCO, NTPC his career of over 37 years . He was appointed as an Additional Independent Director in TEEC's Board in Aug'16.
PK Lohia	President (Finance)	Mr. Lohia has been associated with TEECL since 2004. He oversees the entire Finance, Accounts & Taxation department at TEECL.

Source: Company, RSec Research



CMP (Rs)	343
Upside/ (Downside) (%)	20
Bloomberg Ticker	TEEC IN

**Profit & Loss Statement**

Y/E March (Rs mn)	FY16	FY17E	FY18E	FY19E
Net sales	10,972	14,218	17,579	20,944
% yoy change	38.2	29.6	23.6	19.1
Raw materials	(317)	(355)	(439)	(524)
Employee expenses	302	398	492	586
Other expenses	8,768	11,090	13,729	16,378
<b>Total operating expenditure</b>	<b>8,754</b>	<b>11,133</b>	<b>13,782</b>	<b>16,441</b>
EBITDA	2,218	3,085	3,797	4,503
EBITDA margin (%)	20.2	21.7	21.6	21.5
Depreciation	495	515	535	550
EBIT	1,724	2,570	3,262	3,953
Other income	629	170	205	210
Interest costs	458	231	222	195
PBT	1,894	2,509	3,245	3,968
Taxes	487	627	811	992
Minority interest	1.6	2.00	2.50	3.00
<b>Reported PAT</b>	<b>1,406</b>	<b>1,880</b>	<b>2,431</b>	<b>2,973</b>
% yoy change	33.8	33.7	29.3	22.3
Reported EPS	12.3	16.5	21.3	26.0

**Balance Sheet**

Y/E March (Rs mn)	FY16	FY17E	FY18E	FY19E
<b>Liabilities</b>				
Share capital	114	228	228	228
Reserves & Surplus	10,031	11,169	12,972	15,317
Total shareholder's funds	10,145	11,397	13,200	15,545
Secured loans	3,068	2,568	2,468	2,168
Other long term liabilities	83	112	129	139
Deferred tax liability	8	8	8	8
<b>Capital employed</b>	<b>13,304</b>	<b>14,084</b>	<b>15,804</b>	<b>17,860</b>
<b>Assets</b>				
Gross Block	11,106	12,506	13,406	15,006
Accumulated Depreciation	2,861	3,376	3,911	4,461
<b>Net Block</b>	<b>8,246</b>	<b>9,131</b>	<b>9,496</b>	<b>10,546</b>
Capital Work in Progress	-	-	110	75
<b>Investments (non current)</b>	<b>623</b>	<b>623</b>	<b>623</b>	<b>623</b>
Current investment	924	1,424	1,424	1,424
Inventories	379	415	400	375
Sundry Debtors	4,963	5,687	6,761	7,757
Cash and Bank	1,116	456	876	1,235
Loans and Advances	1,049	1,137	1,406	1,676
Other Current Assets	1,237	1,297	1,697	2,047
<b>Total Current Assets</b>	<b>9,668</b>	<b>10,417</b>	<b>12,564</b>	<b>14,513</b>
<b>Current Liabilities &amp; Provisions:</b>				
Current liabilities	5,051	5,887	6,770	7,657
Provision	181	199	219	241
<b>Total current liabilities</b>	<b>5,232</b>	<b>6,086</b>	<b>6,989</b>	<b>7,897</b>
<b>Capital Deployed</b>	<b>13,304</b>	<b>14,084</b>	<b>15,804</b>	<b>17,860</b>



**Initiating Coverage**

**BUY**



Target Price Rs411

CMP (Rs)	343
Upside/ (Downside) (%)	20
Bloomberg Ticker	TEEC IN

**Cash Flow Statement**

Y/E March (Rs mn)	FY16	FY17E	FY18E	FY19E
PBT	1,894	2,509	3,245	3,968
Depreciation	495	515	535	550
Interest provided	458	231	222	195
<b>Operating CF before WC</b>	<b>2,847</b>	<b>3,255</b>	<b>4,002</b>	<b>4,713</b>
Change in working capital	2,007	528	811	675
Tax Paid	487	627	811	992
<b>Operating cash flow</b>	<b>353</b>	<b>2,100</b>	<b>2,380</b>	<b>3,046</b>
<b>FCF</b>	<b>2,778</b>	<b>700</b>	<b>1,370</b>	<b>1,481</b>
Capex	(2,424)	1,400	1,010	1,565
Investments	243	-	-	-
<b>Investing cash flow</b>	<b>2,181</b>	<b>(1,400)</b>	<b>(1,010)</b>	<b>(1,565)</b>
Issue/buyback of equity	-	-	-	-
Issue/repayment of debt	(899)	(500)	(100)	(300)
Dividends paid	309	628	628	628
Interest paid	(458)	(231)	(222)	(195)
<b>Financing cash flow</b>	<b>(1,666)</b>	<b>(1,359)</b>	<b>(950)</b>	<b>(1,123)</b>
Opening cash balance	247	1,116	456	876
<b>Net change in cash</b>	<b>868</b>	<b>(660)</b>	<b>420</b>	<b>358</b>
Closing cash balance	1,116	456	876	1,235

**Key Ratios**

Y/E March	FY16	FY17E	FY18E	FY19E
EBITDA margin (%)	20.2	21.7	21.6	21.5
PBT margin (%)	17.3	17.6	18.5	18.9
PAT margin (%)	12.8	13.2	13.8	14.2
Depreciation Rate (%)	4.5	4.1	4.0	3.7
Tax Rate (%)	25.7	25.0	25.0	25.0
Asset Turnover	1.0	1.1	1.3	1.4
Debtor days	165	146	140	135
ROCE (%)	17.7	19.5	21.9	23.3
RONW (%)	13.9	16.5	18.4	19.1
Debt/Equity Ratio	0.3	0.2	0.2	0.1