

Techno Electric & Engineering Limited

BUY



Asian Markets Securities Pvt. Ltd.

Robust performance continued....

Institutional Research

CMP (Rs)	679
Target (Rs)	819

Nifty: 8,711; Sensex: 28,183

Key Stock Data

BSE Code	533281
NSE Code	TECHNO
Bloomberg Code	TEEC IN
Shares o/s mn (FVRs2)	57.1
Market Cap (Rsbn)	38.6
52-Week High / Low	720 / 418
3-M Daily Avg. Vol.	40,011

Relative Performance

(%)	1m	3m	12m
TEEC	12.1	25.3	26.0
NIFTY	4.7	12.6	1.7
SENSEX	3.9	11.7	(0.2)

Shareholding Pattern

(%)	Dec15	Mar16	Jun16
Promoter	58.0	58.0	58.0
FII	7.9	2.4	8.2
DII	17.4	17.4	17.7
Others	16.7	22.2	16.1

Amber Singhania

amber.singhania@amsec.in
+91 22 4343 5296

Techno Electric & Engineering Co Ltd. (TEEC) reported strong 1QFY17 results with consolidated Adjusted PAT of Rs 484mn Vs Rs 203mn in 1QFY16. Consolidated revenue increased by 34.5% yoy at Rs 4.8 bn on the back of better EPC execution. Consolidated EBITDA increased by 49.6% yoy, mainly because of robust performance from wind business. EPC EBIT margin improved by 164bp yoy to 14.5% due to better project mix executed. The current order book stands healthy at Rs30 bn (including L1 of Rs4 bn) 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. Wind business seen double positive by way of increased tariff as well as strong wind season led to strong results from wind segment. We have incorporated better increased tariff and better PLF in our estimates, keeping the EPC segment estimates unchanged. We have factored in 25% EPC revenue CAGR with stable EBITM and a PLF at 18% for wind business. 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 TP of Rs819. 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 21% upside from CMP, however we believe the stock has significant higher upside potential in the event of sale of entire wind asset.

Robust 1QFY17 EPC revenues with strong margins: TEEC reported strong 29.9% yoy growth in EPC revenues as the project execution remains strong on the back of higher order book. EPC EBITM improved by 164bp yoy to healthy 14.5%. Wind business also reported strong recovery with 69.3% yoy revenue growth at Rs399mn along with higher EBITM at 60% due to better PLF and increased tariff. Consolidated revenue grew by 34.5% yoy and Adj. PAT grew at 138.1% yoy to 484mn.

Healthy order book and pipeline: TEEC current order book stood at Rs30bn as on date (including L1 of ~Rs4bn), owing to strong inflow of Rs3.5bn in 1QFY17. The current order book inclusive of L1 reflects ~3x book-to-bill ratio suggesting strong visibility and growth in next two years. The order book includes Rs17.5bn worth of orders from PGCIL. Company has increased its market share in PGCIL orders to ~15%.

Asset Ownership: Jhajjer-KT continued its good performance and Patran project has commissioned in June'2016. TEEC reiterated its decision to exit wind business and is hopeful to conclude asset sale in FY17. We believe in the event of exit from wind power business, TEEC's financials would improve significantly and the stock may lead to substantial upward rerating. TEEC is further bidding for 2 BOOT projects of ~Rs10bn each in FY17 and is also aiming for decent order inflow from Solar EPC space too.

Management has guided ~20bn of order inflow with 30% and 50% of revenue growth in EPC and wind segment resp. We have kept our EPC estimates unchanged, factoring in 15% order inflow CAGR, EPC revenue CAGR at 25% and PAT CAGR at 27%. We have also factored in better wind segment financials resulting in increase in our FY17/18 consolidated EPS by 10/13%.

Outlook and Valuations: Consolidated revenues and earnings are likely to increase by CAGR of 24.9% and 25.0% 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 Rs819. 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	13,891	17,106
yoy (%)	1.2	12.1	38.2	26.6	23.1
EBITDA	1,925	2,114	2,203	2,955	3,444
yoy (%)	(17.9)	9.8	4.2	34.1	16.5
Adjusted PAT	875	1,051	1,219	1,982	2,428
yoy (%)	(27.6)	19.9	32.4	40.8	22.5
Equity	114	114	114	114	114
EPS	15.3	18.4	21.3	34.7	42.5

Source: Company, AMSEC Research

Exhibit 2: Key Ratios

Y/E Mar	FY14	FY15	FY16	FY17E	FY18E
EBITDAM (%)	27.2	26.6	20.1	21.3	20.1
NPM (%)	12.1	12.9	10.7	13.9	13.8
PER (x)	44.3	36.9	31.8	19.6	16.0
P/BV (x)	4.6	4.2	3.8	3.3	2.8
EV/Sales (x)	6.0	5.4	3.8	2.9	2.3
EV/EBITDA (x)	22.1	20.3	18.7	13.6	11.3
Core RoACE (%)	9.5	10.0	9.8	15.1	17.1
Core RoANW (%)	12.3	12.9	12.5	20.2	22.1

Exhibit 3: Quarterly snapshot (Consolidated)

Y/E Mar (Rs mn)	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	yoy(%)	qoq (%)	FY15	FY16	yoy (%)
Net Sales	2,015	2,531	3,167	3,260	2,709	34.5	(16.9)	7,939	10,972	38.2
Cons of Raw Materials	1,335	1,486	2,537	2,458	1,751	31.2	(28.8)	5,022	7,816	55.6
Employee Cost	69	75	83	75	72	4.6	(3.4)	274	302	10.2
Other Expenditure	135	143	178	222	174	28.9	(21.3)	528	642	21.5
Total Expenditure	1,539	1,704	2,797	2,754	1,998	29.8	(27.5)	5,823	8,759	50.4
EBITDA	476	827	370	506	712	49.6	40.7	2,115	2,213	4.6
Add: Other Income	46	63	171	94	82	77.4	(12.3)	202	375	85.1
Interest	115	95	88	110	92	(19.6)	(16.3)	465	443	(4.8)
Depreciation	119	118	117	140	133	11.4	(5.2)	603	495	(18.0)
Exceptional item	(247)	2	13	(12)	4	(101.8)	(136.4)	1.17	(244)	
Profit Before Tax	535	675	323	362	565	5.5	56.0	1,249	1,650	32.1
Provision for Taxation	158	207	45	76	84	(46.5)	10.6	185	487	163.0
Reported PAT	377	467	277	285	480	27.2	68.2	1,063	1,407	32.4
Minority Interest	-	-	-	-	-	-	-	(2)	-	
Adjusted PAT	203	469	288	276	484	138.1	75.5	1,066	1,163	9.1
Equity Capital (FQ Rs 2)	114	114	114	114	114			114	114	
Basic EPS (In Rs.)	6.6	8.2	4.9	5.0	8.4	27.2	68.2	18.6	24.7	
Adjusted EPS (In Rs.)	3.6	8.2	5.1	4.8	8.5	138.1	75.5	18.7	20.4	
EBITDA (%)	23.6	32.7	11.7	15.5	26.3	266bp	1075bp	26.6	20.2	(648bp)
PAT (%)	12.4	21.5	9.9	9.4	20.4	802bp	1099bp	13.1	10.3	(284bp)
Tax / PBT (%)	29.5	30.7	14.1	21.1	15.0	(1453bp)	(614bp)	14.8	29.5	1469bp
Raw Mat / Net Sales (%)	66.3	58.7	80.1	75.4	64.6	(162bp)	(1077bp)	63.3	71.2	798bp
Emp Cost/Net Sales (%)	3.4	3.0	2.6	2.3	2.7	(76bp)	37bp	5.5	3.9	(159bp)
Other Exp/Net Sales (%)	6.7	5.6	5.6	6.8	6.4	(28bp)	(36bp)	192.9	212.8	1989bp

Source: Company, AMSEC Research

Exhibit 4: Quarterly segment (Consolidated)

Segment	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	yoy(%)	qoq (%)	FY15	FY16	yoy (%)
Revenue										
EPC (Construction)	1779	2017	3128	3218	2311	29.9	(28.2)	6681	10143	51.8
Energy (Power)	235	514	39	41	399	69.3	864.3	1258	829	(34.1)
Corporate	46	63	171	94	82	77.4	(12.3)	203	375	84.7
Total	2061	2594	3338	3354	2792	35.4	(16.8)	8142	11347	39.4
EBIT										
EPC (Construction)	229	322	327	548	335	46.4	(38.8)	924	1426	54.2
Energy (Power)	95	385	-87	-109	239	152.3	(319.4)	553	283	(48.8)
Corporate	46	63	171	94	82	77.4	(12.3)	203	375	84.7
Sales Growth (% , y-y)										
EPC (Construction)	25.0	33.7	97.7	48.6	29.9			17.1	51.8	
Energy (Power)	(42.3)	(12.9)	(82.4)	3.4	69.3			(8.8)	-34.1	
Corporate	53.8	43.1	242.5	19.3	77.4			69.3	84.7	
EBIT Margin (%)										
EPC (Construction)	12.9	15.9	10.4	17.0	14.5	164bp	(252bp)	13.8	14.1	22bp
Energy (Power)	40.3	74.9	-226.0	-263.6	60.0	1975bp	NA	43.9	34.1	(980bp)
Corporate	100.0	100.0	100.0	100.0	100	-	-	100	100	-

Source: Company, AMSEC Research

Exhibit 5: Quarterly revenue trend

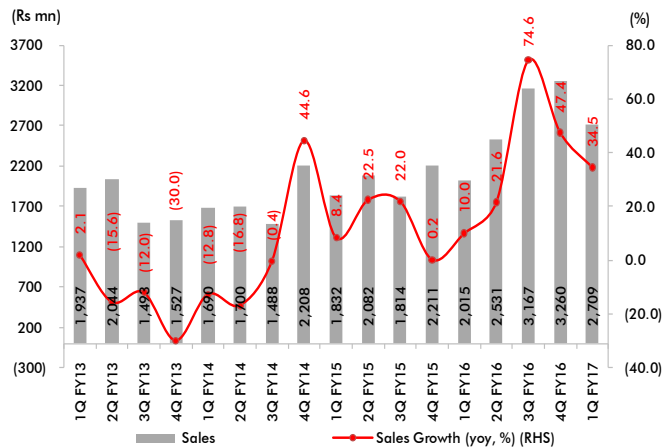


Exhibit 6: Quarterly revenue breakdown segment wise

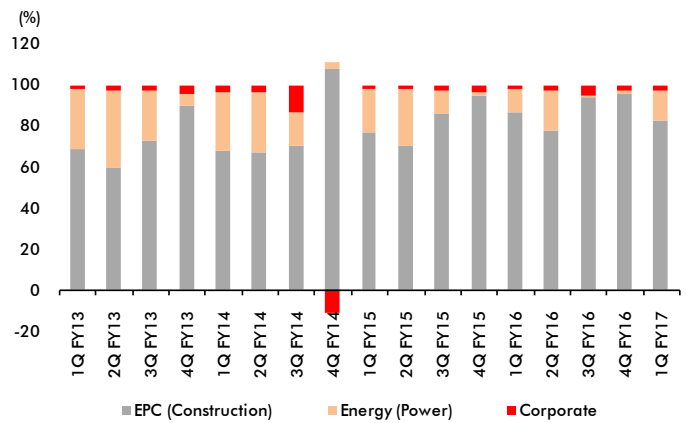


Exhibit 7: Quarterly EBITDA margin Trend

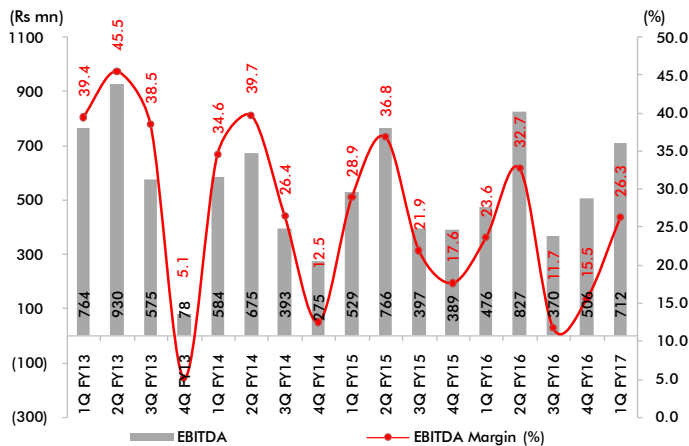


Exhibit 8: Quarterly profit trend

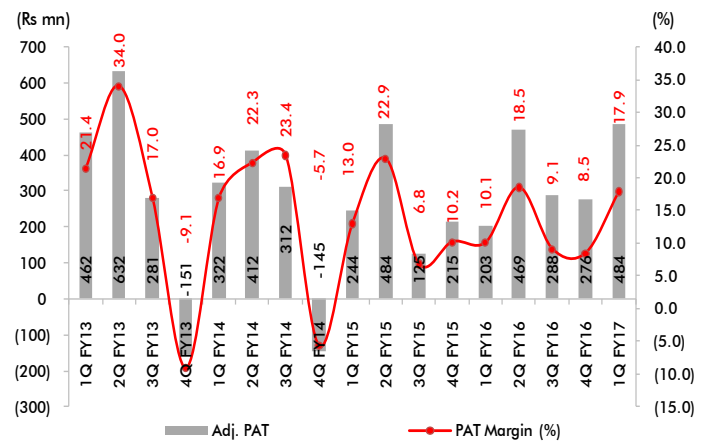


Exhibit 9: Quarterly EPC EBIT and EPC EBIT %

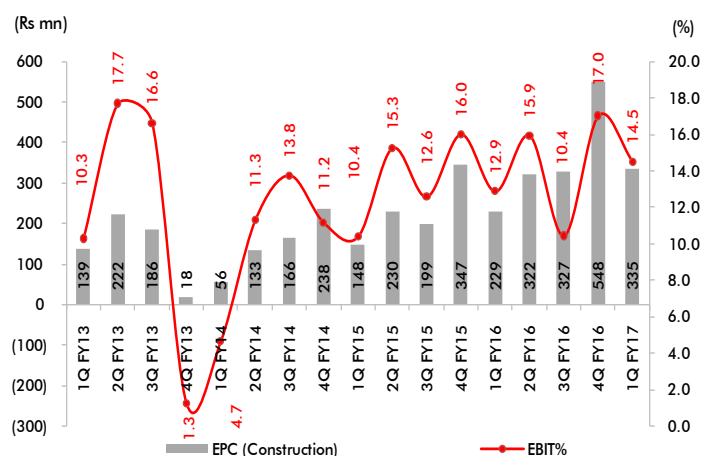


Exhibit 10: SOTP Valuations and target price based on FY17 earnings

Business segment	Valuation methodology	Amount (Rs mn)	Per Share (Rs)
EPC	20x FY18 E/P/E	41,047	719
Wind power	DCF	4,376	77
Transmission business			
Jhajjar KT Transco	2x book value	760	13
Patran Power	1x book value	600	11
Total equity value		46,783	819
CMP			679
Upside (%)			21%

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	13,891	17,106	PBT	924	1,248	1,894	2,478	3,035
Other operating income						Non-cash adjustments	667	603	495	515	516
Consumption of materials	4,260	5,022	7,816	7,501	9,237	Changes in working capital	600	(1,590)	(1,206)	(1,076)	(1,072)
Staff Expenses	290	274	302	736	907	Interest Paid	454	465	443	383	323
Other operating expenses	609	529	652	2,698	3,518	Tax Paid & Other Adj	(79)	(277)	(862)	(496)	(607)
Total Expenditure	5,160	5,825	8,769	10,936	13,662	Cashflow from operations	2,566	449	764	1,804	2,195
EBITDA	1,925	2,114	2,203	2,955	3,444	Capital exp. & Advances	(359)	(91)	1,553	(150)	(150)
Depreciation	667	603	495	515	516	Change in investments	(1,224)	522	(199)	(1,000)	(500)
Operating profit	1,259	1,511	1,709	2,441	2,928	Other investing cashflow	-	-	-	-	-
Other income	120	202	375	420	430	Cashflow from investing	(1,583)	432	1,354	(1,150)	(650)
EBIT	1,379	1,713	2,083	2,861	3,358	Issue of equity	(0)	-	-	-	-
Interest	454	465	443	383	323	Issue/repay debt	(600)	(427)	(527)	(600)	(600)
Exceptional items	-	-	254	-	-	Interest Paid	(454)	(465)	(443)	(383)	(323)
Profit before tax	924	1,248	1,894	2,478	3,035	Dividends paid	(167)	(223)	(278)	(334)	(389)
Tax	38	185	487	496	607	Cashflow from financing	(1,221)	(1,115)	(1,248)	(1,317)	(1,312)
Reported net profit	887	1,063	1,407	1,982	2,428	Change in cash & cash eq	(238)	(234)	869	(663)	233
Minority interest	12	12	-	-	-	Opening cash & cash eq	718	481	247	1,116	453
Adjusted net profit	875	1,051	1,219	1,982	2,428	Closing cash & cash eq	481	247	1,116	453	686
Share O/s mn	57	57	57	57	57	Free cash flow to firm	2,207	359	2,317	1,654	2,045
EPS Rs (adjusted)	15.3	18.4	21.3	34.7	42.5						

Balance Sheet

Particulars	FY14	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS :					
Share Capital	114	114	114	114	114
Reserves	8,257	9,033	10,031	11,679	13,718
Minority Interest	193	199	-	-	-
Total Shareholders Funds	8,564	9,346	10,145	11,793	13,832
Non-Current Liabilities	6,086	5,656	5,130	4,530	3,930
Total borrowings	6,077	5,649	5,122	4,522	3,922
Deferred tax liability	9	7	8	8	8
Current Liabilities	1,848	1,812	3,262	4,034	4,921
Trade payables	1,787	1,657	3,081	3,844	4,687
Short term provisions	62	155	181	190	234
Total Equity & Liabilities	16,498	16,815	18,537	20,357	22,683
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	12,092	14,783
Current investment	1,486	963	1,163	2,163	2,662
Inventories	118	63	379	495	656
Sundry debtors	2,060	3,449	4,963	6,203	7,499
Cash and bank	481	247	1,116	453	686
Short loans and advances	949	1,040	1,105	1,446	1,875
Others current assets	291	421	1,181	1,332	1,406
Total Assets	16,498	16,815	18,537	20,357	22,683
Net Working Capital*	1,570	3,160	4,366	5,442	6,514
Total Gross Debt**	6,077	5,649	5,122	4,522	3,922
Total Net Debt	4,110	4,439	2,843	1,906	575
Capital Employed***	14,641	14,996	15,267	16,315	17,754

* 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	34.7	42.5
CEPS Rs	27.2	29.2	33.3	43.7	51.6
Book Value Rs	146.6	160.2	177.7	206.6	242.3
VALUATION					
EV / Net Sales	6.0	5.4	3.8	2.9	2.3
EV / EBITDA	22.1	20.3	18.7	13.6	11.3
P / E Ratio	44.3	36.9	31.8	19.6	16.0
P / BV Ratio	4.6	4.2	3.8	3.3	2.8
GROWTH YOY%					
Sales Growth	1.2	12.1	38.2	26.6	23.1
EBITDA Growth	(17.9)	9.8	4.2	34.1	16.5
Net Profit Growth	(27.6)	19.9	32.4	40.8	22.5
PROFITABILITY (%)					
EBITDA / Net Sales	27.2	26.6	20.1	21.3	20.1
EBIT / Net sales	19.5	21.6	19.0	20.6	19.6
NPM / Total income	12.1	12.9	10.7	13.9	13.8
Raw Material/Net Sales	60.1	63.3	71.2	54.0	54.0
Int/PBIT	33.0	27.2	21.3	13.4	9.6
Core ROaNW	12.3	12.9	12.5	20.2	22.1
Core ROaCE	9.5	10.0	9.8	15.1	17.1
Tax / PBT	4.1	14.8	25.7	20.0	20.0
TURNOVER					
Net Working Cycle (Days)	81	145	145	143	139
Debtors Velocity (Days)	106	159	165	163	160
Inventory (Days)	6	3	13	13	14
Creditors Velocity (Days)	92	76	102	101	100
LIQUIDITY					
Gross Asset Ratio	0.5	0.6	0.9	1.3	1.5
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	0.1
Interest Coverage (x)	3.0	3.7	4.7	7.5	10.4
PAYOUT					
Payout %	18.8	20.9	19.8	16.8	16.0
Yield %	0.4	0.6	0.7	0.9	1.0

Source: Company, AMSEC Research

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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