

# Techno Electric & Engineering Limited

BUY



Asian Markets Securities Pvt. Ltd.

**EPC margin expanded despite muted revenue growth.....**

## Institutional Research

CMP (Rs)	374
Target (Rs)	467

Nifty: 8,805; Sensex: 28,352

## Key Stock Data

BSE Code	533281
NSE Code	TECHNO
Bloomberg Code	TEEC IN
Shares o/s mn (FVRs 2)	114.2
Market Cap (Rsbn)	42.7
52-Week High / Low	383/209
3-M Daily Avg. Vol.	1,39,375

## Relative Performance

(%)	1m	3m	12m
TEEC	8.5	23.0	60.6
NIFTY	4.8	6.1	26.1
SENSEX	4.1	5.7	23.3

## Shareholding Pattern

(%)	Jun16	Sep16	Dec16
Promoter	58.0	58.0	58.0
FII	8.2	9.3	8.4
DII	17.7	16.5	15.3
Others	16.2	16.2	18.3

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Techno Electric & Engineering Co Ltd. (TEEC) reported healthy 3QFY17 results with consolidated Adjusted PAT of Rs 407mn Vs Rs 307mn in 3QFY17 on the back of strong wind business. Consolidated revenue increased by 12.5% yoy at Rs 3.6bn, lower than our estimate of Rs 3.7bn due to muted growth in EPC revenue. Consolidated EBITDA increased by 86.2% yoy, owing to strong wind margins of 42.8%. EPC EBITM increased by 355bp yoy to 15.1% Vs 11.5% in 3QFY15. The current order book stands healthy at Rs23bn (Excluding L1 of Rs5.0bn) and has a strong bidding pipeline. TEEC has won a large BOOT project in Nagaland in JV with Kalpataru power. The project will start in FY18E and has Rs2.5-3bn worth of work to be executed by TEEC. The management continues to be positive on EPC segment and looking at a 25% CAGR growth in next 5 years. In 3QFY17, apart from announcing sale of 33MW of wind assets; Board has approved a Buy-back from public shareholders of up to 1.5mn equity shares @Rs400/sh. We have factored in a lower revenue growth in EPC at 20% (Earlier 25%) CAGR along with higher EBITM of 15% (earlier 14%) during FY16-19; resulting in a revised EPS of Rs 17.1 in FY17E, Rs 19.4 in FY18E and introduce FY19E earnings estimate at Rs 23.4. 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 Rs467. We value TEEC on SOTP basis valuing EPC at 20x FY19E earnings, wind business at DCF and the transmission BOT assets on the basis of BV. Our TP suggests at 25% upside from CMP.

**EPC Margin expanded despite muted revenue in 3QFY17:** TEEC reported muted 4.2% yoy growth in EPC revenues due to project execution mix. EPC EBITM though increased by 355bp yoy remains healthy at 15.1% Vs 11.5% in Q3FY15. Wind business reported strong revenue growth of 685.4% yoy at Rs304mn along with higher EBITM at 42.8% due to increased realization and better PLF. Consolidated revenue grew by 12.5% yoy and Adj. PAT grew at 32.4% yoy to 407mn.

**In 9MFY17:** Consolidated net sales stood at Rs 9.9bn increased by 29% yoy, EBITDAM improved by 374bp yoy to 25.9%; leading to a 66.6% yoy increase in Adjusted PAT at Rs1.6bn. EPC revenue reported 23.3% yoy growth along with 15.0% EBITM. Whereas Wind segment reported 79% yoy growth revenue along with high EBITM of 64% Vs 49.8% yoy.

**Healthy order book and pipeline:** TEEC current order book stood at Rs23bn as on date (Excluding L1 of ~Rs5.0bn), owing to inflow of Rs2.5bn in 3QFY17. The current order book along with L1 orders reflects ~2.3x book-to-bill ratio suggesting strong visibility and growth in next two years. Further the company has submitted bids for over Rs 30bn worth of orders (Including few FGD packages); and is hopeful of seeing a healthy order inflow in next 3-4 months.

**Asset Ownership:** TEEC along with Kalpataru Power has won a large BOOT projects in Nagaland worth Rs11-12bn. TEEC will own 26% stake and will execute orders worth Rs2.5-3bn as its scope of work. The two BOOT assets i.e Patran and Jhajjar are operating efficiently. Patran has raised Rs1.1 bn of debt at 7.9% and repaid the receivables due to TEEC. TEEC has sold 33MW of wind asset at 1.36x BV. 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.

**Outlook and Valuations:** Consolidated revenues and earnings are likely to increase by CAGR of 19.2% and 29.9% respectively over FY16-19E, lead by strong performance in EPC segment. We have factored in 20% revenue CAGR with 15% EBITM for EPC segment during FY16-19E, whereas for wind power we factored in a 20% PLF going forward. 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 rollover our target to FY19 earnings and reiterate BUY with a revised PT of Rs467. We value TEEC on SOTP basis valuing EPC at 20x FY19E 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)	FY15	FY16	FY17E	FY18E	FY19E
Sales	7,939	10,972	13,602	15,740	18,578
yoy (%)	12.1	38.2	24.0	15.7	18.0
EBITDA	2,114	2,203	3,172	3,263	3,626
yoy (%)	9.8	4.2	44.0	2.9	11.1
Adjusted PAT	1,051	1,219	1,957	2,220	2,672
yoy (%)	19.9	32.4	47.3	7.1	20.4
Equity	114	114	228	228	228
EPS	18.4	21.3	17.1	19.4	23.4

Source: Company, AMSEC Research

## Exhibit 2: Key Ratios

Y/E Mar	FY15	FY16	FY17E	FY18E	FY19E
EBITDAM (%)	26.6	20.1	23.3	20.7	19.5
NPM (%)	12.9	10.7	14.1	13.8	14.1
Adjusted PER (x)	40.7	35.1	21.8	19.3	16.0
P/BV (x)	2.3	2.1	3.7	3.2	2.8
EV/Sales (x)	3.2	2.2	3.1	2.6	2.1
EV/ EBITDA (x)	12.0	10.8	13.2	12.4	10.8
Core RoACE (%)	10.0	9.8	14.5	20.1	22.3
Core RoANW (%)	12.9	12.5	23.2	23.6	25.1

**Exhibit 3: Quarterly snapshot (Consolidated)**

Y/E Mar (Rs mn)	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	yoy(%)	qoq (%)	9MFY16	9MFY17	yoy (%)
<b>Net Sales</b>	<b>3,167</b>	<b>3,260</b>	<b>2,709</b>	<b>3,676</b>	<b>3,563</b>	<b>12.5</b>	<b>(3.1)</b>	<b>7,712</b>	<b>9,948</b>	<b>29.0</b>
Cons of Raw Materials	2,537	2,458	1,751	2,269	2,560	0.9	12.8	5,358	6,579	22.8
Employee Cost	82	75	72	100	76	(7.4)	(24.0)	226	249	10.2
Other Expenditure	144	222	174	192	176	21.7	(8.4)	419	542	29.3
Total Expenditure	2,763	2,754	1,998	2,561	2,812	1.7	9.8	6,002	7,370	22.8
<b>EBITDA</b>	<b>403</b>	<b>506</b>	<b>712</b>	<b>1,115</b>	<b>751</b>	<b>86.2</b>	<b>(32.7)</b>	<b>1,710</b>	<b>2,578</b>	<b>50.8</b>
Add: Other Income	174	94	82	56	49	(71.9)	(13.4)	280	188	(33.0)
Interest	121	110	92	126	80	(34.2)	(36.6)	334	298	(10.9)
Depreciation	117	140	133	133	133	13.0	(0.1)	355	398	12.3
Exceptional item	13	(12)	4	(5)	(3)	(122.1)	(36.2)	(232)	(3)	(98.7)
<b>Profit Before Tax</b>	<b>326</b>	<b>362</b>	<b>565</b>	<b>918</b>	<b>590</b>	<b>81.2</b>	<b>(35.7)</b>	<b>1,533</b>	<b>2,073</b>	<b>35.2</b>
Provision for Taxation	45	76	84	200	185	309.8	(7.4)	453	470	3.7
<b>Reported PAT</b>	<b>281</b>	<b>285</b>	<b>480</b>	<b>718</b>	<b>405</b>	<b>44.4</b>	<b>(43.6)</b>	<b>1,081</b>	<b>1,603</b>	<b>48.4</b>
Minority Interest	-	-	-	-	-	-	-	-	-	-
Share of profit/loss of associates	15	(0)	(0)	(12)	4	(75.8)	(131.1)	39	(8)	(121.7)
<b>Adjusted PAT</b>	<b>307</b>	<b>276</b>	<b>484</b>	<b>702</b>	<b>407</b>	<b>32.4</b>	<b>(42.1)</b>	<b>956</b>	<b>1,593</b>	<b>66.6</b>
Equity Capital (FQ Rs 2)	114	114	114	228	228			114	228	
<b>Basic EPS (In Rs.)</b>	<b>4.9</b>	<b>5.0</b>	<b>8.4</b>	<b>6.3</b>	<b>3.5</b>			<b>18.9</b>	<b>14.0</b>	
<b>Adjusted EPS (In Rs.)</b>	<b>5.4</b>	<b>4.8</b>	<b>8.5</b>	<b>6.2</b>	<b>3.6</b>			<b>16.7</b>	<b>13.9</b>	
EBITDA (%)	12.7	15.5	26.3	30.3	21.1	834bp	(926bp)	22.2	25.9	374bp
PAT (%)	10.5	9.4	20.4	21.2	12.7	223bp	(845bp)	12.0	15.7	375bp
Tax / PBT (%)	13.9	21.1	15.0	21.8	31.4	1750bp	959bp	29.5	22.7	(687bp)
Raw Mat / Net Sales (%)	80.1	75.4	64.6	61.7	71.8	(826bp)	1014bp	69.5	66.1	(333bp)
Emp Cost/Net Sales (%)	2.6	2.3	2.7	2.7	2.1	(46bp)	(59bp)	4.2	3.8	(43bp)
Other Exp/Net Sales (%)	4.6	6.8	6.4	5.2	4.9	37bp	(28bp)	185.8	217.9	3214bp

Source: Company, AMSEC Research

**Exhibit 4: Quarterly segment (Consolidated)**

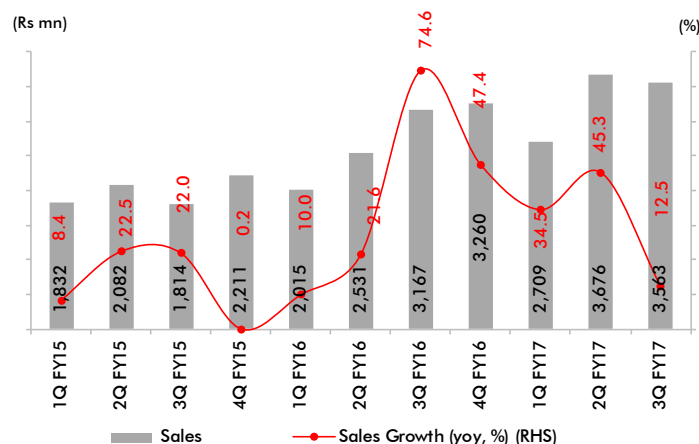
Segment	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	yoy(%)	qoq (%)	9MFY16	9MFY17	yoy (%)
<b>Revenue</b>										
EPC (Construction)	3128	3218	2311	2968	3258	4.2	9.8	6924	8538	23.3
Energy (Power)	39	41	399	708	304	685.4	(57.0)	788	1410	79.0
Corporate	174	94	82	56	49	(71.9)	(13.4)	534	188	(64.9)
<b>Total</b>	<b>3341</b>	<b>3354</b>	<b>2792</b>	<b>3733</b>	<b>3611</b>	<b>8.1</b>	<b>(3.2)</b>	<b>8247</b>	<b>10136</b>	<b>22.9</b>
<b>EBIT</b>										
EPC (Construction)	360	548	335	453	491	36.3	8.3	941	1280	36.0
Energy (Power)	(87)	(109)	239	534	130	(248.7)	(75.6)	392	903	130.3
Corporate	174	94	82	56	49	(71.9)	(13.5)	534	187	(64.9)
<b>EBIT Margin (%)</b>										
EPC (Construction)	11.5	17.0	14.5	15.3	15.1	355bp	(20bp)	13.6	15.0	140bp
Energy (Power)	-226.0	-263.6	60.0	75.4	42.8	26874bp	(3264bp)	49.8	64.0	1426bp
Corporate	100.0	100.0	99.9	100.0	99.8	(16bp)	(14bp)	100.0	99.9	(11bp)
<b>ROCE (%)</b>										
EPC (Construction)	32.6	38.8	18.8	28.3	24.1	(851bp)	(422bp)	85.1	62.8	(2234bp)
Energy (Power)	(0.8)	(1.0)	2.2	5.2	1.3	209bp	(398bp)	3.7	8.8	517bp
Corporate	9.8	7.1	20.0	4.0	3.0	(688bp)	(102bp)	30.2	11.3	(1884bp)

Source: Company, AMSEC Research

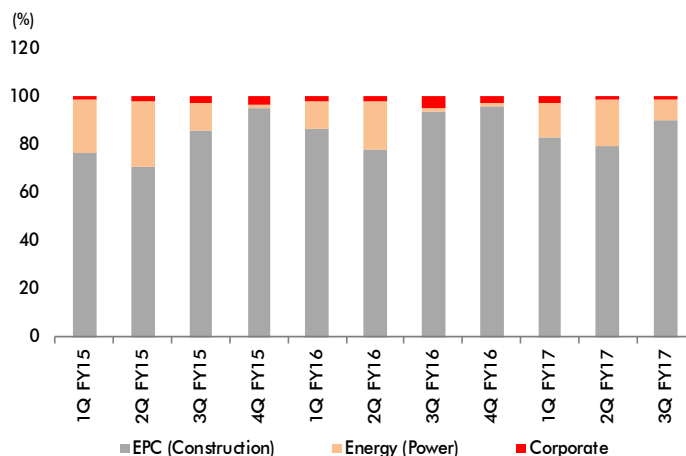
**Exhibit 5: Change In Estimates**

Consolidated (Rs mn)	Old Estimates		Revised Estimates		% Change		Introducing FY19
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	
Revenue	13,898	17,012	13,602	15,740	(2.1)	(7.5)	18,578
EBITDA	2,962	3,354	3,172	3,263	7.1	(2.7)	3,625.6
Adj. PAT	1,987	2,356	1,957	2,220	(1.5)	(5.8)	2,671.7
EPS (Rs)	17.4	20.6	17.1	19.4	(1.5)	(5.8)	23.4
PT (Rs)		425					467
Rating		BUY					BUY

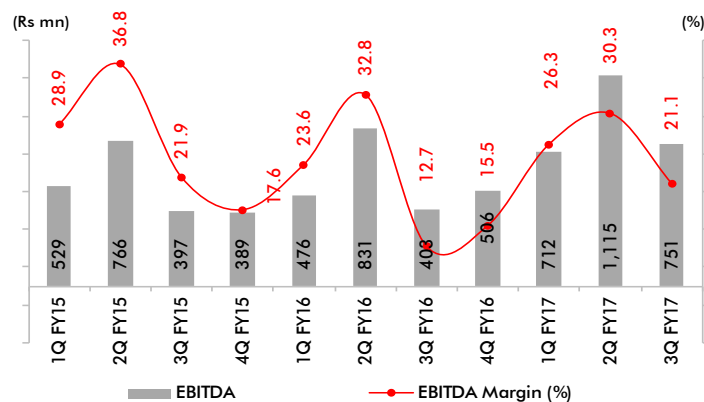
**Exhibit 6: Quarterly revenue trend**



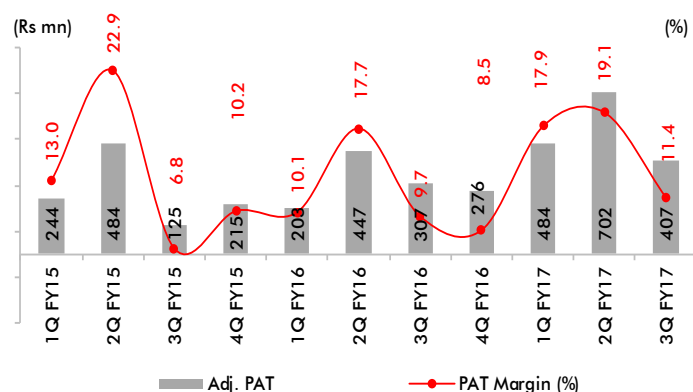
**Exhibit 7: Quarterly revenue breakdown segment wise**



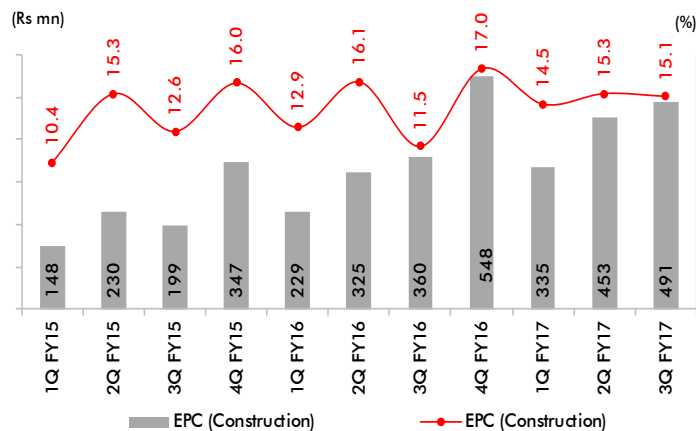
**Exhibit 8: Quarterly EBITDA margin Trend**



**Exhibit 9: Quarterly profit trend**



**Exhibit 10: Quarterly EPC EBIT and EPC EBIT %**



**Exhibit 11: SOTP Valuations and PT based on FY18E**

Business segment	Valuation methodology	Amount (Rs mn)	Per Share (Rs)
EPC	20x FY18E P/E	47,131	413
Wind power	DCF	4,820	42
<b>Transmission business</b>			
Jhajjar KT Transco	2x book value	760	7
Patran Power	1x book value	600	5
<b>Total equity value</b>		<b>53,311</b>	<b>467</b>
CMP			374
Upside (%)			25%

Source: Company, AMSEC Research

**Financials (Consolidated)****(Rsmn)**

<b>Profit &amp; Loss Account</b>						<b>Cash Flow Statement</b>					
<b>Particulars</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>	<b>Particulars</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Net sales	7,939	10,972	13,602	15,740	18,578	PBT	1,248	1,894	2,574	2,775	3,340
Other operating income						Non-cash adjustments	603	495	515	516	423
Consumption of materials	5,022	7,816	7,345	8,500	10,032	Changes in working capit	(1,590)	(1,206)	(553)	(730)	(968)
Staff Expenses	274	302	721	834	985	Interest Paid	465	443	383	323	263
Other operating expenses	529	652	2,364	3,143	3,936	Tax Paid & Other Adj	(277)	(862)	(617)	(555)	(668)
Total Expenditure	5,825	8,769	10,430	12,477	14,953	<b>Cashflow from operatio</b>	<b>449</b>	<b>764</b>	<b>2,302</b>	<b>2,328</b>	<b>2,390</b>
<b>EBITDA</b>	<b>2,114</b>	<b>2,203</b>	<b>3,172</b>	<b>3,263</b>	<b>3,626</b>	Capital exp. & Advances	(91)	1,553	1,875	(150)	(150)
Depreciation	603	495	515	516	423	Change in investments	522	(199)	(500)	(500)	(500)
<b>Operating profit</b>	<b>1,511</b>	<b>1,709</b>	<b>2,657</b>	<b>2,748</b>	<b>3,203</b>	Other investing cashflow	-	-	-	-	-
Other income	202	375	300	350	400	<b>Cashflow from investin</b>	<b>432</b>	<b>1,354</b>	<b>1,375</b>	<b>(650)</b>	<b>(650)</b>
<b>EBIT</b>	<b>1,713</b>	<b>2,083</b>	<b>2,957</b>	<b>3,098</b>	<b>3,603</b>	Issue of equity	-	-	-	-	-
Interest	465	443	383	323	263	Issue/repay debt	(427)	(527)	(2,100)	(600)	(600)
Exceptional items	-	254	435	-	-	Interest Paid	(465)	(443)	(383)	(323)	(263)
<b>Profit before tax</b>	<b>1,248</b>	<b>1,894</b>	<b>2,574</b>	<b>2,775</b>	<b>3,340</b>	Dividends paid	(223)	(278)	(424)	(556)	(668)
Tax	185	487	937	555	668	<b>Cashflow from financin</b>	<b>(1,115)</b>	<b>(1,248)</b>	<b>(2,907)</b>	<b>(1,479)</b>	<b>(1,531)</b>
<b>Reported net profit</b>	<b>1,063</b>	<b>1,407</b>	<b>2,073</b>	<b>2,220</b>	<b>2,672</b>	<b>Change in cash &amp; cash</b>	<b>(234)</b>	<b>869</b>	<b>770</b>	<b>199</b>	<b>209</b>
Minority interest	12	(0)	-	-	-	<b>Opening cash &amp; cash e</b>	<b>481</b>	<b>247</b>	<b>1,116</b>	<b>1,886</b>	<b>2,085</b>
<b>Adjusted net profit</b>	<b>1,051</b>	<b>1,219</b>	<b>1,957</b>	<b>2,220</b>	<b>2,672</b>	<b>Closing cash &amp; cash eq</b>	<b>247</b>	<b>1,116</b>	<b>1,886</b>	<b>2,085</b>	<b>2,294</b>
Share O/s mn	57	57	114	114	114	<b>Free cash flow to firm</b>	<b>359</b>	<b>2,317</b>	<b>4,177</b>	<b>2,178</b>	<b>2,240</b>
EPS Rs (adjusted)	18.4	21.3	17.1	19.4	23.4						
<b>Balance Sheet</b>						<b>Ratios</b>					
<b>Particulars</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>	<b>Particulars</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
<b>SOURCES OF FUNDS :</b>						<b>PER SHARE</b>					
Share Capital	114	114	228	228	228	EPS Rs (adjusted)	18.4	21.3	17.1	19.4	23.4
Reserves	9,033	10,031	11,450	13,114	15,118	CEPS Rs	29.2	33.3	22.7	24.0	27.1
Minority Interest	199	-	-	-	-	Book Value Rs	160.2	177.7	102.3	116.8	134.4
<b>Total Shareholders Fun</b>	<b>9,346</b>	<b>10,145</b>	<b>11,679</b>	<b>13,342</b>	<b>15,346</b>	<b>VALUATION</b>					
<b>Non-Current Liabilities</b>	<b>5,656</b>	<b>5,130</b>	<b>3,030</b>	<b>2,430</b>	<b>1,830</b>	EV / Net Sales	3.2	2.2	3.1	2.6	2.1
Total borrowings	5,649	5,122	3,022	2,422	1,822	EV / EBITDA	12.0	10.8	13.2	12.4	10.8
Deferred tax liability	7	8	8	8	8	P / E Ratio	40.7	35.1	21.8	19.3	16.0
<b>Current Liabilities</b>	<b>1,812</b>	<b>3,262</b>	<b>3,950</b>	<b>4,528</b>	<b>5,344</b>	P / BV Ratio	2.3	2.1	3.7	3.2	2.8
Trade payables	1,657	3,081	3,764	4,312	5,090	<b>GROWTH YOY%</b>					
Short term provisions	155	181	186	216	254	Sales Growth	12.1	38.2	24.0	15.7	18.0
<b>Total Equity &amp; Liabilitie</b>	<b>16,815</b>	<b>18,537</b>	<b>18,658</b>	<b>20,300</b>	<b>22,520</b>	EBITDA Growth	9.8	4.2	44.0	2.9	11.1
<b>APPLICATION OF FUNDS :</b>						Net Profit Growth	19.9	32.4	47.3	7.1	20.4
<b>Non Current Assets</b>	<b>10,631</b>	<b>8,630</b>	<b>6,241</b>	<b>5,876</b>	<b>5,604</b>	<b>PROFITABILITY (%)</b>					
Goodwill	157	200	200	200	200	EBITDA / Net Sales	26.6	20.1	23.3	20.7	19.5
Gross block (Total)	13,335	10,907	9,032	9,182	9,332	EBIT / Net sales	21.6	19.0	21.7	19.7	19.4
Less : accumulated depre	3,283	2,861	3,375	3,891	4,314	NPM / Total income	12.9	10.7	14.1	13.8	14.1
Net block (Total)	10,052	8,046	5,657	5,291	5,018	Raw Material/Net Sales	63.3	71.2	54.0	54.0	54.0
Capital work in progress	38	-	-	-	-	Int/PBIT	27.2	21.3	13.0	10.4	7.3
Noncurrent investment	384	384	384	385	386	Core ROaNW	12.9	12.5	23.2	23.6	25.1
<b>Current Assets</b>	<b>6,183</b>	<b>9,907</b>	<b>12,418</b>	<b>14,424</b>	<b>16,916</b>	Core ROaCE	10.0	9.8	14.5	20.1	22.3
Current investment	963	1,163	1,663	2,162	2,661	Tax / PBT	14.8	25.7	36.4	20.0	20.0
Inventories	63	379	298	345	407	<b>TURNOVER</b>					
Sundry debtors	3,449	4,963	5,962	6,900	8,144	Net Woking Cycle (Days)	145	145	132	131	130
Cash and bank	247	1,116	1,886	2,085	2,294	Debtors Velocity (Days)	159	165	160	160	160
Short loans and advances	1,040	1,105	1,304	1,423	1,629	Inventory (Days)	3	13	8	8	8
Others current assets	421	1,181	1,304	1,509	1,781	Creditors Velocity (Days)	76	102	101	100	100
<b>Total Assets</b>	<b>16,815</b>	<b>18,537</b>	<b>18,658</b>	<b>20,300</b>	<b>22,520</b>	<b>LIQUIDITY</b>					
Net Working Capital*	3,160	4,366	4,919	5,649	6,617	Gross Asset Ratio	0.6	0.9	1.4	1.7	2.0
Total Gross Debt**	5,649	5,122	3,022	2,422	1,822	Total Asset Ratio	0.5	0.6	0.7	0.8	0.9
Total Net Debt	4,439	2,843	(527)	(1,825)	(3,133)	Net Debt-Equity Ratio	0.5	0.3	(0.0)	(0.1)	(0.2)
Capital Employed***	14,996	15,267	14,701	15,764	17,168	Interest Coverage (x)	3.7	4.7	7.7	9.6	13.7
* WC = CA-CL (Excl short term & Curr. Mat. Long term debt)						<b>PAYOUT</b>					
** Total Debt = Long Term + short Term + Curr. Mat. Of Long Term Debt						Payout %	20.9	19.8	20.4	25.1	25.0
*** Capital Employed = NW + Total Debt						Yield %	1.1	1.3	1.1	1.3	1.6

Source: Company, AMSEC Research;

## Recommendation rationale

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

## Sector rating

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

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