

Positives factored-in, downgrade to Hold

We downgrade our rating on Techno Electric (TEEC) to Hold and revise our TP to Rs410 (earlier TP of Rs445). EBITDA earnings bounced back YoY owing to higher EPC execution, a wider PBIT margin of 15.1%, and higher PLF from wind segment. The order intake and order book has been sluggish, and the conversion of the order bid pipeline of +Rs30bn and replenishment of the current order book of ~Rs23bn holds the key. The wind business' performance was weak in FY16, but a very sharp pick-up in PLF in 9MFY17 so far, favourable HC verdict and an average tariff increase of 15-20% will lead to a strong performance in FY17. Although, the EPC business model is unparalleled and our inference of average RoE of 29% and average RoCE of 76% on EPC segment for the forecast period stands moderated, positives such as the debt-free EPC business, AFCF yield of 6% in FY19E, and low D:E of 0.1x in FY19E, look factored-in and hence downgrade to Hold.

- **EPC business – Sluggish order intake leads the earnings downgrade:** TEEC reported modest revenue execution at ~Rs3.3bn (+4% YoY and +10% QoQ); which was complimented by PBIT of Rs491mn (+50% YoY and +9% QoQ). The PBIT margin was buoyant at 15.1% vs 15.2% in Q2FY17. The order intake was near zero and stood at Rs23bn and management has guided for L1 at Rs2.5bn and order bid pipeline at +Rs30bn and hence order wins will create firm visibility for FY19E and beyond. TEEC's asset-light approach, project expertise of more than three decades, ability to bag high-margin orders despite fierce competition, timely and seamless execution, focus on cash generation, low gearing, ability to optimise on fixed costs and as a result consistently deliver best-in-class EBITDA, RoE, and RoCE make its business model unparalleled in the industry.
- **Wind business – Leads the earnings growth:** The wind business remained very strong with PBIT at Rs130mn (vs loss of Rs87mn in Q3FY16). We infer an average PLF at nearly 19% vs 3% in Q3FY16, which coupled with ~13% YoY increase in unit realisation, led to earnings growth. The unit realisation was higher owing to ~10x YoY increase in CER/REC/GBI benefits at Rs0.2bn. Although a favourable HC order on tariffs has been received, the same will be accounted once the tariffs are adopted by Tamil Nadu Electricity Regulatory Commission and it is indicated to have a blended 15-20% tariff hike and potent additional tariff arrears plus surcharge revenue of Rs0.5bn, which has not been factored-in. We believe the company will plan to exit the wind business possibly in FY18E and currently at 1x EV, TEEC has the potential to realise about Rs6.7bn, which we have not factored in.
- **Outlook:** Management is confident of the potential to expand the EPC segment as a result of capex revival, led by Power Grid Corporation of India Ltd and state electricity boards, with strong visibility of traction in the order book. With a healthy order book of Rs26bn (including L1 order) which creates firm revenue visibility for FY18E, we believe the management's philosophy of attaching significance to margins, leverage and cash flow rather than just order intake will remain intact. Hence, we trim our EPC revenue growth as the order intake has been sluggish. EBITDA margin guidance is maintained at 14-15% over the next few years vs 14-14.5% factored in, providing an upside potential. (Refer our update note dt.11-Jan-2017 for details)
- **Valuation and risks:** Our TP of Rs410 is based on SoTP of Mar'19E, derived by assigning PE(x) of 21.4x its EPC earnings, P/B(x) to wind asset, cash and investments and DCFE-based valuation to BOOT/BOOM projects. TEEC's superior earnings, lower PEG(x) and FCF yield of 4% cap the downside. Key downside risks are (1) slowdown in EPC order book and (2) lower PLF and earnings in wind assets.

Y/E Mar – Consol. (Rsmn)	Q3FY17	Q3FY16	YoY (%)	Q2FY17	QoQ (%)	Q3FY17E	Var (%)
Net sales	3,538	3,164	11.8	3,621	(2.3)	3,764	(6.0)
EBITDA	751	370	103.1	1,115	(32.7)	605	24.1
RPAT	409	277	47.5	704	(42.0)	403	1.5
Operating Metrics							
EPC – PBIT	491	327	50.3	452	8.7	551	(10.9)
Wind PBIT	130	(87)	NM	534	(75.6)	(71)	NM

Source: Company, Centrum Research

Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	APAT	YoY (%)	Adj.DEPSRs.	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY15	7,939	12.1	2,080	26.2	1,063	20.0	9.2	12.0	9.6	33.0	10.5
FY16	10,972	38.2	2,122	19.3	1,406	33.9	12.3	14.6	11.1	20.0	14.7
FY17E	14,378	31.0	3,134	21.8	2,115	50.4	18.5	18.9	16.2	16.3	11.4
FY18E	16,119	12.1	3,149	19.5	2,401	13.5	21.0	18.3	15.7	17.8	13.8
FY19E	18,093	12.2	3,350	18.5	2,681	11.6	23.5	17.9	15.8	15.9	12.7

Source: Company, Centrum Research Estimates

Target Price	Rs410	Key Data			
CMP*	Rs374	Bloomberg Code	TEEC IN		
Upside	9.7%	Curr Shares O/S (mn)	114.2		
Previous Target	Rs445	Diluted Shares O/S(mn)	114.2		
Previous Rating	Buy	Mkt Cap (Rsbn/USDmn)	42.7/636.6		
Price Performance (%)*		52 Wk H / L (Rs)	384/209.1		
	1M	6M	1Yr		
			5 Year H / L (Rs)	384/34.5	
TEEC IN	8.5	15.9	60.6	Daily Vol. (3M NSE Avg.)	139374
NIFTY	4.8	1.5	26.1		

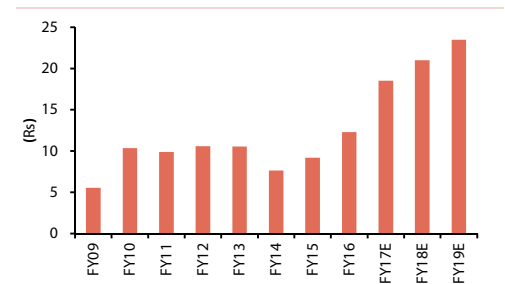
*as on 13 February 2017; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Dec-16	Sep-16	Jun-16	Mar-16
Promoter	58.0	58.0	58.0	58.0
FII's	8.2	9.2	7.9	6.4
Dom. Inst.	15.3	16.5	17.7	17.3
Public & Others	18.6	16.3	16.4	18.3

Source: BSE, *as on 13 February 2017

Trend in Adj. EPS



Source: Company, Centrum Research

Earning Revision

Particulars (Rsmn)	FY17E			FY18E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	14,378	14,434	(0.4)	16,119	18,516	(12.9)
EBITDA	3,134	3,187	(1.7)	3,149	3,664	(14.1)
APAT	2,115	2,057	2.8	2,401	2,537	(5.4)

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rsmn)	FY17E			FY18E		
	Centrum	BBG	Chg (%)	Centrum	BBG	Chg (%)
Revenue	14,378	14,403	(0.2)	16,119	17,540	(8.1)
EBITDA	3,134	3,207	(2.3)	3,149	3,692	(14.7)
APAT	2,115	2,037	3.8	2,401	2,529	(5.1)

Bloomberg Consensus				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
14	0	1	394	410	4.0

*as on 13 February 2017; Source: Bloomberg, Centrum Research Estimates

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Valuation and View

We have arrived at a revised TP of Rs410 using SoTP valuation based on Mar'19E (vs Mar18E). We have valued the EPC business by assigning a fair PE(x), and valued the wind business at 1x equity, cash and liquid investments at 1x book value, and BOOT & BOOM projects at DCFE.

Our earnings have been revised to factor-in higher PLF for wind in FY17E and moderating the EPC revenue forecast and earnings over FY17-18E and we introduce FY19E.

Exhibit 1: SoTP Valuation

Methodology	Fair Multiple assigned to Mar-19E	Fair price (Rs)	Valuation Base
PE (x) to EPC's EPS	21.4	354	Applied a PE(x) of 21.4x based on average RoE of 28% over FY17-19E, CoE of 10.6% and terminal growth rate of 7%
P/B(x) to equity invested in wind assets	1	23	P/B of 1x equity
DCF at 13% to Jhajjar KT (49% share)		5.6	Risk-free rate at 7.3%, beta at 1, zero terminal value in FY37E
DCF at 13% to Patran (49% share)		2.3	Risk-free rate at 7.3%, beta at 1, zero terminal value in FY51E
Cash and Investments		22	Quasi cash and liquid investments considered
Fair price (rounded-off)		410	

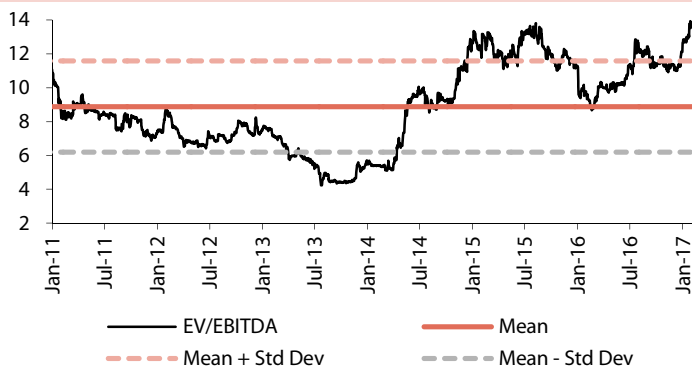
Source: Company, Bloomberg, Centrum Research Estimates

Exhibit 2: Sensitivity Analysis to FY18E

Sensitivity to key variables	(%)Change	% impact on EBITDA	% impact on EPS
Increase in EPC revenue	5	3.5	3.6
Increase in wind revenue	5	1.5	1.6

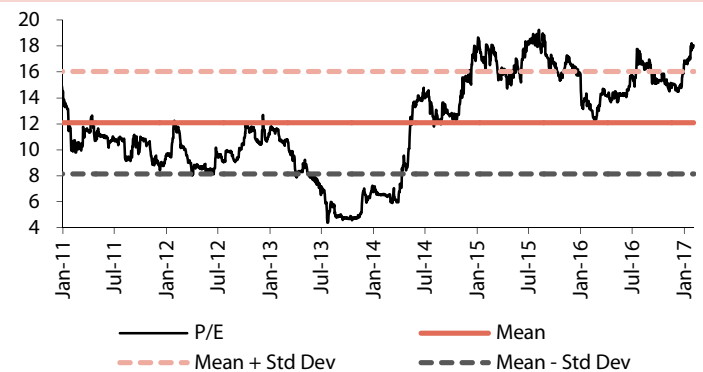
Source: Company, Centrum Research Estimates

Exhibit 3: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 4: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 5: Comparative Valuations

Company	Mkt. Cap (Rsmn)	CAGR FY16-FY18E (%)			EBITDA Margin (%)			P/E (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
Techno Electric	42,664	21.2	21.8	30.7	19.3	21.8	19.5	20.0	16.3	17.8	14.7	11.4	13.8	14.6	18.9	18.3	1.0	1.2	1.2
KEC International*	43,512	7.7	12.9	26.9	8.0	8.7	8.8	17.4	13.7	14.0	8.4	7.2	7.8	13.5	15.4	16.3	0.8	0.9	0.8
Kalpataru Power Trans*	44,550	(9.4)	(27.6)	61.5	16.6	10.7	10.6	31.0	14.8	14.5	5.6	7.8	12.1	5.2	10.9	11.7	0.6	0.9	0.8
BHEL*	3,79,745	15.2	NM	NM	(7.5)	3.2	5.7	(54.5)	39.4	23.6	(21.3)	22.3	15.3	(2.7)	2.4	4.7	0.2	0.7	1.1
Larsen & Toubro*	13,99,155	10.9	7.2	12.3	12.3	11.0	11.5	27.2	24.9	21.8	18.1	18.4	15.2	12.0	11.4	12.6	1.2	1.3	1.4
GE T&D India Ltd	77,198	13.7	16.1	56.3	7.9	4.2	8.2	164.3	99.6	40.8	49.1	57.4	23.3	5.9	7.5	16.0	0.4	0.5	0.8
Siemens*#	4,26,169	5.0	9.9	(15.2)	9.9	9.9	10.8	39.1	62.5	52.4	41.9	37.1	31.5	24.2	11.7	12.1	0.8	1.8	0.8
Reliance Infra*	1,40,844	28.2	(6.1)	10.2	36.1	19.1	19.3	5.6	6.6	5.9	7.4	9.6	9.7	7.2	7.5	7.8	2.0	2.1	2.2
ABB India*	2,58,645	12.9	13.7	31.3	9.3	8.6	9.4	86.1	66.4	50.6	34.6	32.5	26.3	10.3	11.8	14.7	0.3	0.4	0.5

Source: *Bloomberg, Centrum Research Estimates; NA: Details are not available, *# as on YE Sep15, DNA: Details not available

Quarterly financials, Operating metrics and Key performance indicators

Exhibit 6: Quarterly Financials - Consolidated

Particulars (Rsmn)	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Net Sales	2,209	1,999	2,489	3,164	3,258	2,678	3,621	3,538
Consumption of raw material	1,634	1,375	1,438	2,549	2,770	1,475	2,170	2,560
Other Expenses	137	161	143	178	222	174	192	176
Total Operating expenses	1,822	1,565	1,704	2,797	2,754	1,998	2,561	2,812
EBITDA	389	450	827	370	506	712	1,115	751
Depreciation	85	119	118	117	140	133	133	133
Interest	98	89	95	88	110	97	121	77
Other Income	74	46	63	171	94	82	56	49
PBT	280	288	677	336	350	565	918	590
Tax (including deferred tax)	72	158	207	45	76	84	200	185
RPAT (after minority interest)	227	377	467	277	284	480	704	409
YoY Growth (%)								
Net Sales	0.3	10.7	22.1	75.8	47.5	34.0	45.5	11.8
EBITDA	41.5	(14.9)	7.9	(6.9)	29.9	58.2	34.9	103.1
PAT	NM	59.1	(2.1)	125.0	26.8	27.2	53.4	46.1
Margins (%)								
EBITDA	17.6	22.5	33.2	11.7	15.5	26.6	30.8	21.2
APAT	9.4	6.5	18.9	9.2	8.4	17.9	19.8	11.5
Segment Revenue								
EPC	2,167	1,779	2,017	3,128	3,218	2,311	2,968	3,258
Wind	40	235	514	39	41	399	708	304
Corporate	79	46	63	171	94	82	56	49
Segment PBIT								
EPC	347	229	322	327	548	335	452	491
Wind	(31)	349	385	(87)	(109)	239	534	130
Corporate	79	46	63	171	94	82	44	49
Segment PBIT Margins (%)								
EPC	16.0	12.9	15.9	10.4	17.0	14.5	15.2	15.1
Wind	(77.4)	148.2	74.9	(226.0)	(263.6)	60.0	75.4	42.8
Corporate	100.0	100.0	100.0	100.0	100.0	100.0	78.7	99.8

Source: Company, Centrum Research

Exhibit 7: Key Performance Indicators

Key Variable	FY15	FY16	FY17E	FY18E	FY19E
EPC EBITDA Margin (%)	13.8	14.3	14.5	14.5	14.0
Wind PLF (%)	17	13	25	18	18

Source: Company, Centrum Research Estimate

Financials (Consolidated)

Exhibit 8: Income Statement

Y/E March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Revenues	7,939	10,972	14,378	16,119	18,093
Materials	5,022	7,816	9,746	11,477	13,202
% of revenues	63.3	71.2	67.8	71.2	73.0
Employee Costs	274	302	347	433	480
% of revenues	3.4	2.7	2.4	2.7	2.7
Others	563	733	1,151	1,060	1,060
% of revenues	7.1	6.7	8.0	6.6	5.9
EBITDA	2,080	2,122	3,134	3,149	3,350
EBITDA Margin (%)	26.2	19.3	21.8	19.5	18.5
Depreciation & Amortisation	603	495	449	385	386
EBIT	1,477	1,627	2,685	2,764	2,964
Interest expenses	431	361	259	154	99
PBT from operations	1,046	1,266	2,427	2,611	2,865
Other Income	202	629	496	478	504
Exceptional items	-	-	420	-	-
PBT	1,248	1,894	3,343	3,089	3,369
Taxes	185	487	669	618	674
Effective tax rate (%)	15	26	20	20	20
PAT	1,063	1,407	2,674	2,471	2,695
Extraordinary items	13	(2)	(139)	(70)	(15)
Reported PAT	1,050	1,406	2,535	2,401	2,681
Adjusted PAT	1,050	1,406	2,115	2,401	2,681

Source: Company, Centrum Research Estimates

Exhibit 9: Key Ratios

Y/E March	FY15	FY16	FY17E	FY18E	FY19E
Growth Ratios (%)					
Revenue	12.1	38.2	31.0	12.1	12.2
EBITDA	8.0	2.0	47.7	0.5	6.4
Adj. PAT	20.0	33.9	50.4	13.5	11.6
Margin Ratios (%)					
EBITDA Margin	26.2	19.3	21.8	19.5	18.5
PBIT from operations	13.2	11.5	16.9	16.2	15.8
Adjusted PAT	12.9	12.1	14.2	14.5	14.4
Return Ratios (%)					
ROE	12.0	14.6	18.9	18.3	17.9
ROCE	9.6	11.1	16.2	15.7	15.8
ROIC	9.5	8.9	16.1	15.6	15.5
Turnover Ratio (days)					
Gross block turnover ratio (x)	0.6	0.9	1.4	1.6	1.7
Debtors	159	165	139	139	139
Inventory	3	13	7	7	7
Creditors	63	96	94	94	94
Cash conversion cycle	99	82	52	52	52
Solvency Ratio (x)					
Net Debt-equity	0.5	0.3	0.1	0.1	(0.0)
Debt-equity	0.6	0.5	0.3	0.2	0.1
Interest coverage	0.3	0.2	0.1	0.1	0.0
Gross Debt/EBITDA	2.7	2.4	1.2	0.9	0.7
Current Ratio	2.9	2.7	2.3	2.3	2.3
Per share ratios (Rs)					
Adjusted EPS	9.2	12.3	18.5	21.0	23.5
BVPS (Adj.)	80.1	88.8	106.8	122.5	139.5
CEPS (Adj.)	14.5	16.6	26.1	24.4	26.9
DPS (Adj.)	2.0	2.5	3.5	4.5	5.5
Dividend payout %	26	24	19	26	28
Valuation (x)					
P/E (adjusted)	33.0	20.0	16.3	17.8	15.9
P/BV	1.9	1.4	2.8	3.1	2.7
EV/EBITDA	10.5	14.7	11.4	13.8	12.7
Dividend yield %	1.3	1.0	1.2	1.2	1.5
5 Yr Avg AOCF/EV yield %	4.2	2.1	3.3	3.3	3.6

Source: Company, Centrum Research Estimates

Exhibit 10: Balance Sheet

Y/E March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Equity Share Capital	114	114	228	228	228
Reserves & surplus	9,033	10,031	11,972	13,756	15,698
Shareholders' fund	9,147	10,145	12,200	13,985	15,927
Debt (including short-term borrowings and Pref. Capital)	5,649	5,122	3,877	2,924	2,317
Deferred Tax liability (net)	7	8	-	-	-
Minority Interest	199	-	-	-	-
Total Liabilities	15,002	15,275	16,078	16,908	18,244
Gross block	13,492	11,106	10,176	10,476	10,776
Less: Accumulated depreciation	(3,283)	(2,861)	(3,309)	(3,694)	(4,080)
Net Block	10,209	8,246	6,867	6,782	6,696
CWIP	38	-	-	-	-
Net Fixed Assets	10,247	8,246	6,867	6,782	6,696
Investments	1,347	1,547	3,662	4,198	4,848
Inventories	63	379	285	320	360
Sundry Debtors	3,449	4,963	5,489	6,156	6,906
Cash & bank balances	247	1,116	1,515	960	1,466
Loans and advances	1,461	2,286	2,398	3,133	3,183
Other assets	-	-	-	-	-
Total current assets	5,220	8,744	9,687	10,570	11,915
Sundry Creditors	1,367	2,875	3,710	4,162	4,676
Other current liabilities	290	206	428	480	539
Provisions	155	181	-	-	-
Net current assets	3,408	5,482	5,549	5,927	6,700
Total Assets	15,002	15,275	16,078	16,908	18,244

Source: Company, Centrum Research Estimates

Exhibit 11: Cash Flow

Y/E March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Operating profit bef working capital changes	2,027	1,908	3,103	2,856	3,081
Net chg in working capital	(1,588)	(1,583)	482	(933)	(266)
CF from op. activities (a)	438	325	3,585	1,922	2,815
Adj. OCF (OCF – Interest as per cash flow)	(5)	(134)	3,326	1,769	2,716
Net Capex	(7)	1,920	930	(300)	(300)
Adj. FCF	(12)	1,786	4,256	1,469	2,416
CF from invest. activities (b)	658	1,995	(1,185)	(836)	(950)
CF from fin. activities (c)	(1,330)	(1,452)	(1,161)	(1,642)	(1,360)
Net chg in cash (a+b+c)	(234)	869	1,239	(555)	505

Source: Company, Centrum Research Estimates

Appendix

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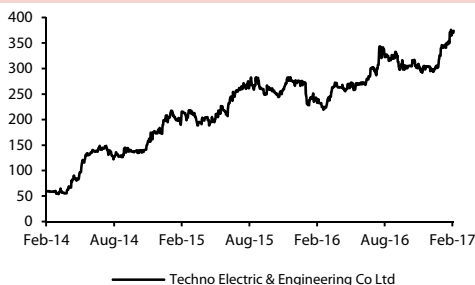
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Techno Electric price chart



Source: Bloomberg, Centrum Research

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