

Techno E&E Co.

Superlative quarter; can the momentum sustain?

Results were materially ahead of our expectations. Revenue/EBITDA/PAT grew 52%/43%/43% and were 45-50% above our expectations. EPC's sustained execution momentum (up 45% YoY) and strong wind-season-led power revenue (up 47%) contributed to the revenue beat. With opening book-to-bill at ~2.2x and tepid order intake in FY17 (down ~20% YoY), sustaining this revenue growth will be highly dependent on new order wins. But a strong 1Q means the ask vis-à-vis our full-year growth expectation in the core EPC business (12%) is now small (requires flat revenue YoY in the last 9 months). Techno also maintained strong margin performance – EPC EBITDA margin of 16.6% (up ~190bps YoY). Benefits of selling part of wind asset base (finance costs down 7%, other income up 38% YoY), drove 43% YoY profit growth to Rs690mn (FY18E: Rs2.2bn). Depending on management's commentary, we may upgrade revenue growth estimates post the earnings call. Downsides from CMP (17x FY19E core earnings) remain limited given Techno's margin and cash-focused track record and lean balance sheet (net debt-to-equity of 0.2x).

Result snapshot

- **Revenue – Strong beat across the board**

Revenue was up by 52% YoY to Rs4.1bn due to a strong performance in both EPC (up 59% YoY, 45% ahead of our estimate) and wind-power generation (up 11%; 47% ahead of our expectation) segments.

Execution in the core EPC business in this quarter means that the company now needs to just maintain its performance of the last nine months of FY17 for a 12% growth in FY18E (our estimate).

- **EBITDA and margins**

EBITDA of Rs1.0bn, was up 43% YoY, 52% ahead of our estimate. Operating leverage aided EBITDA margin. In the core EPC segment, EBITDA margin was 16.6% (up ~200bps YoY). Due to the margin mix (lower wind revenue), EBITDA margin declined by 160bps on a consolidated basis.

- **Net profit**

Depreciation and finance costs declined because of sale of wind assets and other income increased due to strong cash flows. Higher tax rate offset some of these benefits, resulting in an EBITDA earnings growth of 46%. Net profit for the quarter was Rs690mn.

Where do we go from here?

We had cut our growth estimates in the EPC segment from 20% to 12% for FY18E at the beginning of the year due to weaker-than-expected order inflows in FY17 (down 20%). But despite this, the company managed to maintain its execution momentum. The focus should be on the management commentary on order inflows and whether the momentum can sustain in FY18E. Current valuation of 17x FY19E core EPS suggests limited downsides (mid-sized EPC universe trades at 15x).

Techno shows all the hallmarks of a top-notch contractor – its working capital requirements are lower than peers, exhibits strong control over fixed overheads and is a margin-focused project bidder. Moreover, the company has capabilities across the power space, including transmission, distribution and generation making it highly adaptable to changing trends making it our preferred play in the power T&D space. We expect a revenue/EPS CAGR of 18%/34% over FY17-19E in the EPC business.

BUY

Result Update

Stock Information

Bloomberg Code:	TEEC IN
CMP (Rs):	346
TP (Rs):	425
Mcap (Rs bn/US\$ bn):	40/0.6
3M ADV (Rs mn/US\$ mn):	18/0.3

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(8)	(14)	5	15
Rel. to Sensex	(7)	(18)	(7)	(2)

Source: Bloomberg, Ambit Capital research

Ambit Estimates (Rs bn)

	FY17	FY18E	FY19E
Revenues	14	15	18
EBITDA	3.1	3.1	3.6
EPS (Rs)	16.9	19.6	24.2

Source: Bloomberg, Ambit Capital research

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Exhibit 1: Result snapshot – beats across the board

Rs mn	Jun-17	Jun-16	YoY	Est	Diff (%)
EPC	3,681	2,311	59%	2,542	45%
Power Generation	442	399	11%	300	47%
Revenue	4,123	2,709	52%	2,842	45%
COGS	2,793	1,751	59%	-	
Employee cost	82	72	14%	-	
Other costs	232	174	33%	-	
EBITDA	1,016	712	43%	668	52%
EBITDA margin	24.6%	26.3%	-160 bps	23.5%	110 bps
Depreciation	106	133	-20%	107	-1%
EBIT	910	579	57%	561	62%
EPC	604	335	80%	381	58%
Power Generation	327	239	37%	180	81%
EBIT margin	22.1%	21.4%	70 bps	19.8%	230 bps
EPC	16.4%	14.5%	190 bps	15.0%	140 bps
Power Generation	74.0%	60.0%	1400 bps	60.0%	1400 bps
Financial costs	86	92	-7%	38	127%
PBT (ex-OI)	825	487	69%	524	57%
Core PBT margin	20.0%	18.0%	200 bps	18.4%	160 bps
Other income	114	82	38%	86	32%
Adj PBT	939	569	65%	610	54%
Reported PBT	939	565	66%	610	54%
Tax	245	84	190%	140	75%
Tax rate	26%	15%	1120 bps	23%	310 bps
Profit from Assc	(3)	(0)	NA	-	NA
PAT	690	480	44%	469	47%
Adj PAT	690	480	44%	469	47%
EPS (adj; Rs)	6.1	4.2	46%	4.5	36%

Source: Company, Ambit Capital research

Balance sheet

Rs mn	FY16	FY17	FY18E	FY19E
Shareholder's funds	10,145	11,070	12,025	13,914
Minority Interest	-	-	-	-
Debt	5,122	2,999	2,610	2,221
Deferred Tax Liability	8	1,161	1,161	1,161
Sources of funds	15,275	15,231	15,796	17,296
Net block	8,046	6,286	5,945	5,604
CWIP	-	-	-	-
Goodwill	200	201	201	201
Investments (incl current)	1,547	4,660	4,660	4,660
Inventories	379	2	2	3
Sundry Debtors	4,963	5,596	5,217	6,332
Cash and Bank	1,116	1,032	2,601	4,921
Other Current Assets	1,181	1,253	-	-
Loans and Advances	1,105	33	983	666
Trade Payables	2,875	3,407	3,036	3,779
Other Current Liabilities	206	381	733	1,268
Provisions	181	45	45	45
Net current assets	5,482	4,084	4,990	6,831
Application of funds	15,275	15,231	15,796	17,296

Source: Company, Ambit Capital research

Income statement

Rs mn	FY16	FY17	FY18E	FY19E
Revenue	10,972	13,567	14,764	18,154
EPC	10,143	12,109	13,563	16,953
Transmission BOOT	-	-	-	-
Wind	829	1,458	1,201	1,201
Total expenses	8,769	10,442	11,633	14,519
EBITDA	2,203	3,125	3,131	3,636
EPC	1,440	1,790	2,034	2,543
Transmission BOOT	-	-	-	-
Wind	764	1,335	1,097	1,093
EBITDA margin	20.1%	23.0%	21.2%	20.0%
Depreciation	495	508	440	447
EBIT	1,709	2,617	2,691	3,189
Interest expense	443	373	238	211
Other income	375	492	175	263
Exceptional income	254	-	-	-
Adj PBT	1,640	2,735	2,627	3,241
Tax	487	837	494	623
Adj PAT	1,217	1,927	2,217	2,728
Reported PAT	1,406	1,927	2,217	2,728
Adj EPS (Rs)	11	16.9	19.6	24.2

Source: Company, Ambit Capital research

Cash flow statement

Rs mn	FY16	FY17	FY18E	FY19E
PBT	1,894	2,735	2,627	3,241
Depreciation	495	508	440	447
Others	(184)	(102)	64	(52)
Direct taxes paid	(297)	(837)	(494)	(623)
Change in working capital	(1,583)	1,149	413	241
CFO	325	3,453	3,050	3,254
Purchase of fixed assets	1,920	1,252	(100)	(105)
Investments in subs	(1)	-	-	-
Interest/dividend received	71	492	175	263
Sale of Investment	11	(3,113)	-	-
Others	(6)	302	250	239
CFI	1,995	(1,067)	325	397
Proceeds from borrowings	(683)	(2,123)	(389)	(389)
Change in share capital	-	-	(600)	-
Interest paid	(459)	(373)	(238)	(211)
Dividends paid	(309)	-	(579)	(730)
CCF	(1,451)	(2,496)	(1,806)	(1,330)
Change in cash	869	(110)	1,569	2,321
Free cash flow	2,245	4,706	2,950	3,149

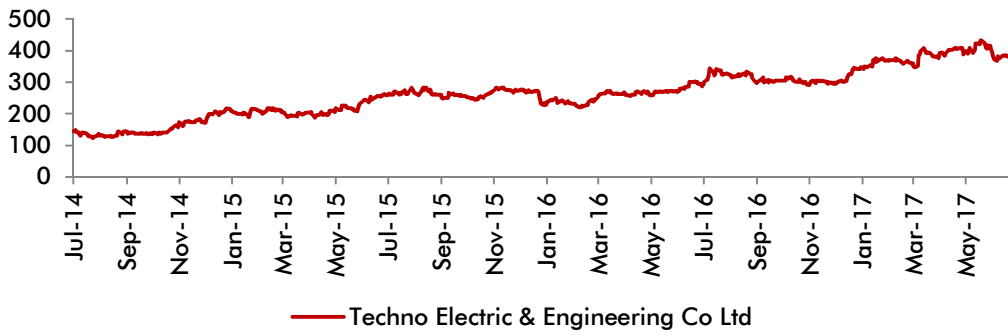
Source: Company, Ambit Capital research

Ratio analysis/Valuation parameters

	FY16	FY17	FY18E	FY19E
Gross Block Turnover (x)	0.9	1.3	1.5	1.9
Net Block Turnover (x)	1.2	1.9	2.4	3.1
Working Capital turns (x)	3.4	5.2	6.1	8.8
Net debt/ equity	0.3	(0.2)	(0.3)	(0.5)
Gross debt/ equity	0.5	0.3	0.2	0.2
Net debt/ EBITDA	1.4	(0.6)	(1.2)	(1.8)
Book value per share	89	97	107	123
Balance sheet				
RoE	13%	19%	19%	21%
RoCE	8%	12%	14%	16%
Valuation				
P/E (ex-embedded value)	43.6	38.8	26.9	21.4
EV/ EBITDA	23.8	15.2	14.5	11.8
P/B	4.9	4.5	4.1	3.6

Source: Company, Ambit Capital research

Techno E&E Co. (TEEC IN, BUY)



Source: Bloomberg, Ambit Capital research

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BUY	>10%
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