

Techno Electric & Engineering Limited

BUY



Asian Markets Securities Pvt. Ltd.

Healthy performance continues.....

Institutional Research

CMP (Rs)	370
Target (Rs)	447

Nifty: 9,794; Sensex: 31,449

Key Stock Data

BSE Code	533281
NSE Code	TECHNO
Bloomberg Code	TEEC IN
Shares o/s mn (FV Rs2)	112.7
Market Cap (Rs bn)	41.7
52-Week High / Low	439/243
3-M Daily Avg. Vol.	50,751

Relative Performance

(%)	1m	3m	12m
TEEC	(0.0)	(8.2)	15.7
NIFTY	(0.9)	4.2	12.9
SENSEX	(1.8)	4.2	11.7

Shareholding Pattern

(%)	Dec16	Mar17	Jun17
Promoter	58.0	58.0	58.8
FII	8.4	5.3	4.9
DII	15.3	17.9	17.8
Others	18.3	18.8	18.5

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Techno Electric & Engineering Co Ltd. (TEEC) reported strong 1QFY18 results. Consolidated revenue grew by 52.2% yoy at Rs 4.12bn, higher than our estimate on the back of 59.3% yoy growth in EPC revenues on account of higher execution and billing pre GST implementation. Consolidated EBITDA increased by 42.8% yoy & EBITDM decline by 162bp, due to change in business mix towards EPC. APAT grew 42.6% yoy to Rs690mn Vs Rs 484mn in Q1FY17. The current order book stands healthy at Rs24.5bn and has a strong bidding pipeline. The management continues to be positive on EPC segment and looking at 15-20% revenue growth in FY18. We have kept our estimates unchanged and factored in 17% EPC revenue CAGR during FY18-19 along with EPC EBITM of 14.5%. The company has become net cash positive with net cash of ~Rs2.3bn in 1QFY18. 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. We maintain BUY with TP of Rs447. 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.

Robust 1QFY18 Consolidated Results: Consolidated net sales stood at Rs 4.12bn increased by 52.2% yoy on account of healthy 59.3% growth in EPC segment, EBITDA increased by 42.8% yoy to Rs 1.01bn in Q1FY18. EBITDAM declined by 162bp yoy to 24.6% yoy due to higher contribution from EPC segment. Adjusted PAT stood at Rs690mn up 42.6% yoy and 60.8% qoq.

Segment Wise Performance in Q1FY18: TEEC reported healthy 59.3% yoy growth in EPC revenues, with EBITM improved by 188bp yoy to 16.4% Vs 14.5%, mainly on account of higher project execution and billing pre GST implementation phase. Wind segment revenue in 1QFY18 is up by 10.8% yoy to Rs442mn due to better wind condition. EBIT up by 36.7% yoy to Rs 327mn Vs Rs 239mn with EBITM increased by 1405bp to 74% yoy Vs 60% in Q1FY17. Corporate segment reported sales increased by 38.4% yoy to Rs114mn on account of higher cash.

Healthy order book and pipeline: TEEC current firm order book orders stood at Rs24.5bn, with order inflow of Rs5.5bn in 1QFY18 including own BOT order worth Rs2.5bn. The current order book reflects ~1.81x book-to-bill ratio suggesting visibility and growth in next two years. Management targeting ~Rs 15-20bn order inflow in FY18, with major inflow is 2HFY18.

Outlook and Valuations: Consolidated revenues and earnings are likely to increase by CAGR of 14.7% and 13.5% respectively over FY17-19E, lead by strong performance in EPC segment. We have factored in 17% revenue CAGR with 14.5% EBITM for EPC segment during FY17-19E, whereas for wind power we factored in a 20% PLF going forward. Given the strong 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 and maintain our PT of Rs447. 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 Book Value.

Exhibit 1: Key Financials (Consolidated)

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Sales	7,939	10,972	13,567	15,062	17,860
yoy (%)	12.1	38.2	23.7	11.0	18.6
EBITDA	2,114	2,206	3,125	3,084	3,500
yoy (%)	9.8	4.3	41.6	(1.3)	13.5
Adjusted PAT	1,051	1,043	2,024	2,185	2,606
yoy (%)	19.9	10.8	61.3	15.1	19.2
Equity	114	114	228	225	225
EPS	9.3	9.3	18.0	19.4	23.1

Source: Company, AMSEC Research

Exhibit 2: Key Ratios

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
EBITDAM (%)	26.6	20.1	23.0	20.5	19.6
NPM (%)	12.9	9.2	14.6	14.2	14.3
Adjusted PER (x)	79.4	79.9	20.6	19.1	16.0
P/BV (x)	2.3	2.3	3.8	3.4	3.0
EV/Sales (x)	3.2	2.1	2.9	2.5	2.0
EV/EBITDA (x)	11.9	10.6	12.7	12.1	10.2
Core RoACE (%)	10.0	8.2	15.7	23.3	27.3
Core RoANW (%)	12.9	11.5	30.9	35.8	39.5

Exhibit 3: Quarterly snapshot (Consolidated)

Y/E Mar (Rs mn)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	yoy(%)	qoq (%)	FY16	FY17	yoy (%)
Net Sales	2,709	3,676	3,563	3,619	4,123	52.2	13.9	10,972	13,567	23.7
Cons of Raw Materials	1,751	2,269	2,560	2,745	2,793	59.5	1.7	7,816	9,325	19.3
Employee Cost	72	100	76	97	82	13.7	(15.5)	299	346	15.8
Other Expenditure	174	192	173	233	232	32.8	(0.3)	652	772	18.3
Total Expenditure	1,998	2,561	2,809	3,075	3,107	55.5	1.0	8,766	10,442	19.1
EBITDA	712	1,115	754	544	1,016	42.8	86.7	2,206	3,125	41.7
Add: Other Income	82	56	49	70	114	38.4	61.8	375	258	(31.2)
Interest	92	126	80	76	86	(7.1)	13.1	443	373	(15.7)
Depreciation	133	133	133	110	106	(20.2)	(3.7)	494	508	2.8
Exceptional item	4	(5)	-	233	-	(100.0)	(100.0)	254	233	(8.1)
Profit Before Tax	565	918	590	662	939	66.2	41.7	1,898	2,735	44.1
Provision for Taxation	84	200	185	367	245	190.4	(33.2)	721	837	16.1
Reported PAT	480	718	405	295	693	44.4	134.7	1,177	1,899	61.3
Share of profit / loss of associates	(0)	(12)	4	37	(3)	1,816.9	(108.2)	23	29	24.1
Adjusted PAT	484	702	409	429	690	42.6	60.8	1,043	2,024	94.0
Equity Capital (FQ Rs 2)	114	228	228	228	229			114	228	
Basic EPS (In Rs.)	8.4	6.3	3.5	2.6	6.0			20.6	16.6	
Adjusted EPS (In Rs.)	8.5	6.2	3.6	3.8	6.0			18.3	17.7	
EBITDA (%)	26.3	30.3	21.2	15.0	24.6	(162bp)	961bp	20.1	23.0	293bp
PAT (%)	20.4	21.2	12.8	13.1	18.1	(230bp)	496bp	9.2	14.6	545bp
Tax / PBT (%)	15.0	21.8	31.4	55.4	26.1	1118bp	(2928bp)	38.0	30.6	(738bp)
Raw Mat / Net Sales (%)	64.6	61.7	71.8	75.9	67.7	311bp	(811bp)	71.2	68.7	(250bp)
Emp Cost/Net Sales (%)	2.7	2.7	2.1	2.7	2.0	(67bp)	(69bp)	2.7	2.5	(17bp)
Other Exp/Net Sales (%)	6.4	5.2	4.9	6.4	5.6	(82bp)	(80bp)	5.9	5.7	(26bp)

Source: Company, AMSEC Research,

Exhibit 4: Quarterly segment (Consolidated)

Segment	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	yoy(%)	qoq (%)	FY16	FY17	yoy (%)
Revenue										
EPC (Construction)	2,311	2,968	3,258	3,572	3,681	59.3	3.1	10,143	12,109	19.4
Energy (Power)	399	708	304	47	442	10.8	833.4	829	1,458	75.8
Corporate	82	56	49	70	114	38.4	61.8	375	258	(31.2)
Total	2792	3733	3611	3690	4237	51.8	14.8	11347	13825	21.8
EBIT										
EPC (Construction)	335	453	491	494	604	80.0	22.3	1,429	1,773	24.1
Energy (Power)	239	534	130	(59)	327	36.7	(652.0)	284	844	197.2
Corporate	82	56	49	70	114	38.6	61.8	628	258	(59.0)
EBIT Margin (%)										
EPC (Construction)	14.5	15.3	15.1	13.8	16.4	188bp	258bp	14.1	14.6	56bp
Energy (Power)	60.0	75.4	42.8	-125.2	74.0	1405bp	19922bp	34.2	57.9	2366bp
Corporate	99.9	100.0	99.8	100.0	100.0	14bp	3bp	167.5	99.9	(6755bp)
ROCE (%)										
EPC (Construction)	15.4	28.3	24.1	25.1	28.7	1336bp	369bp	70.1	90.0	1993bp
Energy (Power)	2.2	5.2	1.3	-0.7	4.4	219bp	508bp	2.8	9.4	663bp
Corporate	6.8	4.0	3.0	3.2	3.6	(321bp)	46bp	632.0	11.6	(62038bp)

Source: Company, AMSEC Research

Concall Highlights

- Management maintains its guidance of 15-20% revenue growth in EPC, along with maintaining EBITM during FY18.
- Order book as on June 2017 stand at Rs 24.5bn and order inflow for the quarter stand at Rs 5.5bn. Order Inflow guidance remains at Rs15-20bn for FY18 and ~Rs5bn order will come from new business segment i.e. other than T&D Segment.
- Order book break-up: Out of total OB of Rs 24.5bn, 55-60% of OB is from PGCIL, 20-25% is from SEB, 10% is from NTPC and remaining 10% is others.
- Capex for BOOT project would require ~Rs 1bn over a period of three years.
- In Q1FY18, Gross debt stand at Rs 2bn and Gross liquid cash stands at ~Rs 4.25bn.
- In Q1FY18, Receivables stand at Rs 3bn + retention stands at ~Rs 2bn and creditors days stand ~Rs1.5bn
- REC Inventory stands at ~3,00,000 units in Q1FY18 end.
- Nagaland project Update: Project under is now Negotiation process and financial closure will happen in Sept17 end and Execution will start in Q1FY19 end.
- Q1FY18 Margin Is improved due to higher sales but margins will be under pressure in next few quarters due to competition in T&D space. Management guiding normal margin will be ~15-16%.

Exhibit 5: Quarterly revenue trend

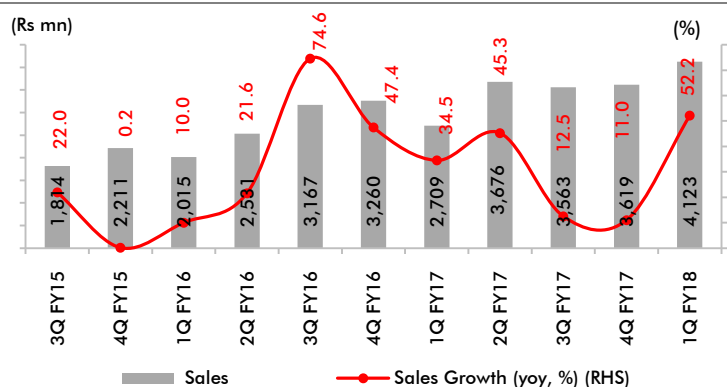


Exhibit 6: Quarterly revenue breakdown segment wise

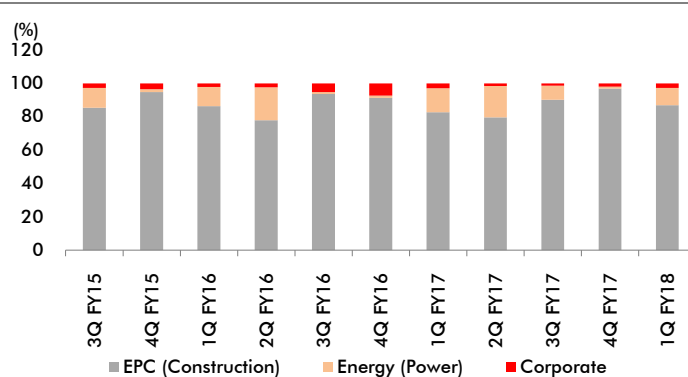


Exhibit 7: Quarterly EBITDA margin Trend

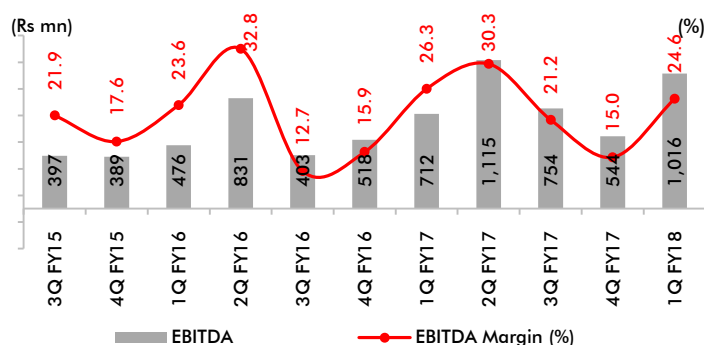


Exhibit 8: Quarterly profit trend

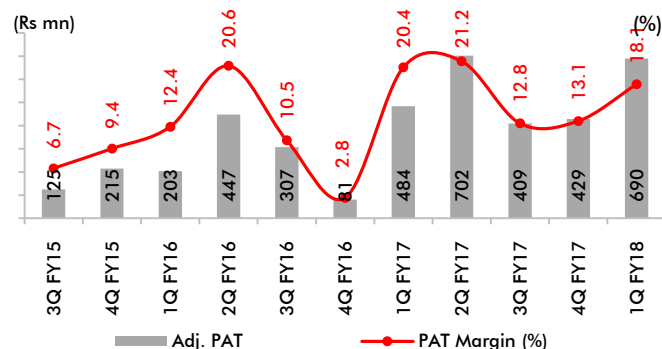


Exhibit 9: Quarterly EPC EBIT and EBITM %

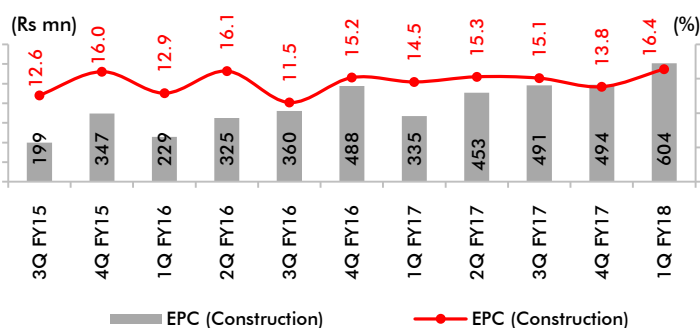


Exhibit 10: SOTP Valuations and PT based on FY19E

Business segment	Valuation methodology	Amount (Rs mn)	Per Share (Rs)
EPC	20x FY19E P/E	44,395	394
Wind power	DCF	4,869	43
Transmission business			
Jhajjar KT Transco	2x book value	760	7
Patran Power	1x book value	300	3
Total equity value		50,324	447
CMP			350
Upside (%)			28%

Source: Company, AMSEC Research

Financials (Consolidated)

(Rs mn)

Profit & Loss Account						Cash Flow Statement					
Particulars	FY15	FY16	FY17	FY18E	FY19E	Particulars	FY15	FY16	FY17	FY18E	FY19E
Net sales	7,939	10,972	13,567	15,062	17,860	PBT	1,248	1,898	2,502	2,732	3,257
Consumption of materials	5,022	7,816	9,325	10,393	12,413	Non-cash adjustments	603	495	508	414	414
Staff Expenses	274	299	346	377	447	Changes in working capital	(1,590)	(1,214)	1,323	452	(728)
Other operating expenses	529	652	772	1,209	1,501	Interest Paid	465	443	373	288	228
Total Expenditure	5,825	8,766	10,442	11,978	14,360	Tax Paid & Other Adj	(277)	310	(589)	(546)	(651)
EBITDA	2,114	2,206	3,125	3,084	3,500	Cashflow from operations	449	1,931	4,118	3,339	2,521
Depreciation	603	495	508	414	414	Capital exp. & Advances	(91)	537	1,256	(150)	(150)
Operating profit	1,511	1,712	2,617	2,670	3,086	Change in investments	522	(213)	(3,100)	(500)	(500)
Other income	202	375	258	350	400	Other investing cashflow	-	-	-	-	-
EBIT	1,713	2,087	2,875	3,020	3,486	Cashflow from investing	432	324	(1,844)	(650)	(650)
Interest	465	443	373	288	228	Issue of equity	-	-	-	(578)	-
Exceptional items	-	254	233	-	-	Issue/repay debt	(427)	(666)	(1,984)	(600)	(600)
Profit before tax	1,248	1,898	2,502	2,732	3,257	Interest Paid	(465)	(443)	(373)	(288)	(228)
Tax	185	721	837	546	651	Dividends paid	(223)	(278)	-	(549)	(659)
Reported net profit	1,063	1,177	1,899	2,185	2,606	Cashflow from financing	(1,115)	(1,387)	(2,358)	(2,015)	(1,487)
Minority interest	12	23	29	-	-	Change in cash & cash eq	(234)	868	(83)	674	383
Adjusted net profit	1,051	1,043	2,024	2,185	2,606	Opening cash & cash eq	481	247	1,116	1,032	1,707
Share O/s mn	57	57	114	113	113	Closing cash & cash eq	247	1,116	1,032	1,707	2,090
EPS Rs (adjusted)	9.3	9.3	18.0	19.4	23.1	Free cash flow to firm	359	2,468	5,374	3,189	2,371

Balance Sheet						Ratios					
Particulars	FY15	FY16	FY17	FY18E	FY19E	Particulars	FY15	FY16	FY17	FY18E	FY19E
SOURCES OF FUNDS :						PER SHARE					
Share Capital	114	114	228	225	225	EPS Rs (adjusted)	9.3	9.3	18.0	19.4	23.1
Reserves	9,033	9,164	10,842	11,904	13,851	CEPS Rs	29.2	29.3	21.4	23.1	26.8
Minority Interest	199	-	-	-	-	Book Value Rs	160.2	162.5	98.2	107.6	124.9
Total Shareholders Funds	9,346	9,279	11,070	12,129	14,076	VALUATION					
Non-Current Liabilities	5,656	6,009	4,161	3,561	2,961	EV / Net Sales	3.2	2.1	2.9	2.5	2.0
Total borrowings	5,649	4,984	2,999	2,399	1,799	EV / EBITDA	11.9	10.6	12.7	12.1	10.2
Deferred tax liability	7	1,025	1,161	1,161	1,161	P / E Ratio	79.4	79.9	20.6	19.1	16.0
Current Liabilities	1,812	3,263	3,833	5,200	6,116	P / BV Ratio	2.3	2.3	3.8	3.4	3.0
Trade payables	1,657	3,219	3,727	5,034	5,872	GROWTH YOY%					
Short term provisions	155	44	106	165	245	Sales Growth	12.1	38.2	23.7	11.0	18.6
Total Equity & Liabilities	16,815	18,550	19,064	20,889	23,153	EBITDA Growth	9.8	4.3	41.6	(1.3)	13.5
APPLICATION OF FUNDS :						Net Profit Growth	19.9	10.8	61.3	15.1	19.2
Non Current Assets	10,627	8,871	7,276	7,012	6,748	PROFITABILITY (%)					
Goodwill	157	200	201	201	201	EBITDA / Net Sales	26.6	20.1	23.0	20.5	19.6
Gross block (Total)	13,335	11,923	10,667	10,817	10,967	EBIT / Net sales	21.6	19.0	21.2	20.1	19.5
Less : accumulated depreciati	3,283	3,886	4,381	4,795	5,209	NPM / Total income	12.9	9.2	14.6	14.2	14.3
Net block (Total)	10,052	8,037	6,286	6,022	5,758	Raw Material/Net Sales	63.3	71.2	68.7	69.0	69.5
Capital work in progress	38	-	-	-	-	Int/PBIT	27.2	21.2	13.0	9.5	6.6
Noncurrent investment	380	634	789	789	789	Core ROaNW (Ex cash)	12.9	11.5	30.9	35.8	39.5
Current Assets	6,188	9,679	11,787	13,877	16,405	Core ROaCE (Ex Cash)	10.0	8.2	15.7	23.3	27.3
Current investment	968	926	3,871	4,371	4,871	ROaNW	12.0	11.3	19.9	18.8	19.9
Inventories	63	379	2	41	98	ROaCE	11.0	9.5	15.8	22.9	25.5
Sundry debtors	3,449	4,963	5,596	6,272	7,487	Tax / PBT	14.8	38.0	33.4	20.0	20.0
Cash and bank	247	1,116	1,032	1,707	2,090	TURNOVER					
Short loans and advances	1,040	551	238	289	391	Net Woking Cycle (Days)	145	146	82	63	68
Others current assets	421	1,744	1,048	1,197	1,468	Debtors Velocity (Days)	159	165	151	152	153
Total Assets	16,815	18,550	19,064	20,889	23,153	Inventory (Days)	3	13	0	1	2
						Creditors Velocity (Days)	76	107	100	122	120
						LIQUIDITY					
Net Working Capital*	3,160	4,375	3,051	2,600	3,327	Gross Asset Ratio	0.6	0.9	1.2	1.4	1.6
Total Gross Debt**	5,649	4,984	2,999	2,399	1,799	Total Asset Ratio	0.5	0.6	0.7	0.8	0.8
Total Net Debt	4,435	2,942	(1,904)	(3,678)	(5,162)	Net Debt-Equity Ratio	0.5	0.3	(0.2)	(0.3)	(0.4)
Capital Employed***	14,996	14,262	14,070	14,529	15,876	Interest Coverage (x)	3.7	4.7	7.7	10.5	15.3

* 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

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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