

Current Reco	: BUY
Previous Reco	: BUY
CMP	: INR365
Target Price	: INR470
Potential Return	: 29%

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3QFY18 RESULT REVIEW

Techno Electric & Engineering Co Ltd

Subdued quarter; outlook remains strong

Techno Electric & Engineering reported weak performance in Q3FY18, below our estimates. Consolidated revenue declined 15% to INR 3.0bn on the back of decline in EPC and Energy businesses. Slower execution impacted EPC revenue, which is expected to pick up over the next few quarters, while the wind business revenue was impacted by (1) reduced wind capacity due to sale of 30MW and (2) heavy rains in Tamil Nadu. For 9MFY18, the revenue declined 4% to INR 8.5bn. Operating performance improved 330bps with EBITDA margin at 24.4% as EPC saw 290bps improvement in addition to excise adjustment. PAT grew 9% to INR 438mn, mainly on the back of (1) improved operating performance, (2) lower interest expenses, and (3) lower tax outgo. For 9MFY18, PAT declined 9% to INR 937mn. Orders, which had stalled due to GST transition-related issues, have largely normalized with order intake at INR 5.5bn during the quarter (and total new orders for 9MFY18 at INR 12bn). The order pipeline looks strong as the company expects strong order intake of over INR25bn in FY19. The total order backlog remained at INR 24bn with L1 position in orders worth INR 3bn and revenue visibility of over two years. Techno Electric has emphasized on improving the balance sheet through reduced debt (by prepayment) and collecting receivables/retention. We see the company as a key beneficiary of (1) increased spending in T&D and (2) uptick in high-margin industrial spending, mainly aluminum and refineries. Given an improvement in outlook along with strong earnings trajectory and return ratios, we maintain BUY on the stock with revised SoTP-based target price of INR470 (INR 460 earlier), valuing the standalone EPC business at 20x (unchanged) FY20E earnings.

Market data

Sensex	:	34,300
Sector	:	Industrial
Market Cap (INRbn)	:	41.1
Market Cap (USDbn)	:	0.639
O/S Shares (m)	:	112.7
52-wk HI/LO (INR)	:	439/312
Avg Daily Vol ('000)	:	22
Bloomberg	:	TEEC IN

Source: Bloomberg

Valuation

	FY18e	FY19e	FY20e
EPS (INR)	18.9	21.4	25.0
P/E	19.3	17.1	14.6
P/BV	3.3	2.8	2.5
EV/EBITDA	13.6	11.5	9.5
Dividend Yield (%)	0.5	0.5	0.5

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	(11)	(4)	5	(1)
Relative	(10)	(7)	(4)	(19)

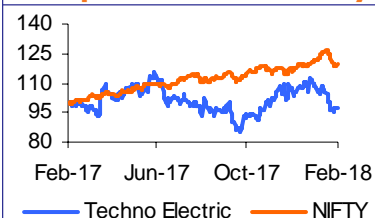
Source: Bloomberg

Shareholding pattern

Promoters	:	59%
Public	:	41%
Others	:	0%

Source: Bloomberg

Price performance vs Nifty



Source: Bloomberg Indexed to 100

Key result highlights:

- Consolidated revenue dropped 15% to INR 3.0bn (below our estimate of INR 4bn), led by 15% decline in the EPC business and wind business. The company had front-loaded execution in Q1FY18; thus, revenue decline in 9MFY18 was restricted to 3% and revenue came in at INR 9.7bn.
- The company saw 330bps improvement in EBITDA margin to 24.4%, driven by 290bps improvement in operating performance of the EPC business.
- Consolidated PAT at INR 438mn, improved 9%, mainly due to (1) better operating performance and (2) lower interest expense.
- The intake during Q3FY18/9MFY18 stood at INR 5.5bn/INR 12bn. The order book at the end of Q3FY18 was at INR 24bn with L1 position of INR 3bn, providing revenue visibility of over two years.

Key concall highlights:

- After a strong Q1FY18, the company expected moderation in new orders and execution, before ramping up towards the end of the year. This has played out in Q2FY18 and Q3FY18.
- The company is targeting order intake of about INR 14-15bn during FY18 with a strong uptick expected in FY19 at INR 25bn. It expects the order book to be at a similar position.
- The company is hopeful of bagging at least 2-3 new projects from NTPC's FGD bulk tender for meeting the new environmental norms, now expected by June 2019. Also, with increase in enquiries from industries including aluminum/refinery, the company is hopeful of bagging some projects there as well.
- The company expects to conclude the merger of the company with Simran by FY18, which will result in savings on taxation in MAT for the next 2-3 years.

Quarterly Performance (Standalone)

INR m	3Q FY18	3Q FY17	YoY (%)	2Q FY18	QoQ (%)	9MFY18	9MFY17	YoY (%)
Revenue	2,756	3,311	(17)	2,014	37	8,452	8,790	(4)
Raw Material	1,982	2,560	(23)	1,483	34	6,258	6,579	(5)
% of Sales	71.9%	77.3%		73.6%		74.0%	74.9%	
Employee Cost	92	74	24	101	(8)	273	243	12
% of Sales	3.3%	2.2%		5.0%		3.2%	2.8%	
Other Exp	180	141	28	157	15	536	453	18
% of Sales	6.5%	4.3%		7.8%		6.3%	5.2%	
Total Exp	2,255	2,775	(19)	1,741	30	7,066	7,275	(3)
EBITDA	502	536	(6)	274	83	1,385	1,514	(9)
EBITDA Margin (%)	18.2%	16.2%		13.6%		16.4%	17.2%	
Other Income	12	4	235	42	(71)	120	139	(14)
Interest	20	31	(35)	25	(17)	72	124	(42)
Depreciation	6	40	(84)	7	(9)	20	121	(83)
PBT (before exceptional)	487	467	4	283	72	1,414	1,408	0
Exceptional Items	-	3		-		-	3	
PBT (Reported)	487	470	4	283	72	1,414	1,411	0
Tax	152	158	(4)	104	47	477	384	24
Tax rate (%)	31.3%	33.6%		36.6%		33.7%	27.2%	
Reported PAT	335	312	7	180	86	937	1,027	(9)
Exceptional Items	-	3		-		-	3	
Adjusted PAT	335	309	8	180	86	937	1,024	(9)
PAT Margin (%)	12.1%	9.3%		8.9%		11.1%	11.7%	
EPS (Rs)	2.9	3.9	(25)	1.6	86	8.2	9.0	(9)

Source: Company, Antique

Segmental Performance (Standalone)

INR m	3Q FY18	3Q FY17	YoY (%)	2Q FY18	QoQ (%)	9MFY18	9MFY17	YoY (%)
Sales	2,769	3,315	(16)	2,056	35	8,572	8,929	(4)
EPC (Construction)	2,756	3,258	(15)	2,014	37	8,452	8,538	(1)
Energy (Power)	-	53		-		-	252	
Corporate	12	4	235	42	(71)	120	139	(14)
EBIT	507	502	1	308	65	1,486	1,534	(3)
EPC (Construction)	495	491	1	266	86	1,365	1,278	7
Energy (Power)	-	7		-		-	116	
Corporate	12	4	235	42	(71)	120	139	(14)
EBIT Margin (%)								
EPC (Construction)	18.0	15.1		13.2		16.2	15.0	
Energy (Power)		13.5					46.1	
Corporate	100.0	100.0		100.0		100.0	100.0	

Source: Company, Antique

Quarterly Performance (Consolidated)

INR m	3Q FY18	3Q FY17	YoY (%)	2Q FY18	QoQ (%)	9MFY18	9MFY17	YoY (%)
Revenue	3,015	3,563	(15)	2,542	19	9,680	9,948	(3)
Raw Material	1,982	2,560	(23)	1,483	34	6,258	6,579	(5)
% of Sales	65.7%	71.8%		58.3%		64.6%	66.1%	
Employee Cost	94	76	24	103	(8)	279	249	12
% of Sales	3.1%	2.1%		4.0%		2.9%	2.5%	
Other Exp	203	176	15	189	7	623	542	15
% of Sales	6.7%	4.9%		7.4%		6.4%	5.4%	
Total Exp	2,279	2,812	(19)	1,774	28	7,160	7,370	(3)
EBITDA	736	751	(2)	768	(4)	2,520	2,578	(2)
EBITDA Margin (%)	24.4%	21.1%		30.2%		26.0%	25.9%	
Other Income	17	49	(65)	109	(84)	240	188	28
Interest	39	80	(51)	60	(35)	185	298	(38)
Depreciation	106	133	(20)	106	(0)	318	398	(20)
PBT (before exceptional)	608	587	4	711	(14)	2,258	2,070	9
Exceptional Items	-	3		-		-	3	
PBT (Reported)	608	590	3	711	(14)	2,258	2,073	9
Tax	170	185	(8)	106	60	522	470	11
Tax rate (%)	28.0%	31.4%		15.0%		23.1%	22.7%	
Reported PAT	438	405	8	604	(27)	1,736	1,603	8
Share of associates/JV	(4)	4	(200)	(4)	3	(10)	(8)	24
Reported PAT after share of associates/JV	434	406	7	601	(28)	1,725	1,592	8
Exceptional Items	-	3		-		-	3	
Adjusted PAT	438	402	9	604	(27)	1,736	1,600	8
PAT Margin (%)	14.5%	11.3%		23.8%		17.9%	16.1%	
EPS (Rs)	3.8	3.6	7	5.3	(28)	15.1	14.0	8

Source: Company, Antique

Segmental Performance (Consolidated)

INR m	3Q FY18	3Q FY17	YoY (%)	2Q FY18	QoQ (%)	9MFY18	9MFY17	YoY (%)
Sales	3,032	3,611	(16)	2,651	14	9,920	10,015	(1)
EPC (Construction)	2,756	3,258	(15)	2,014	37	8,452	8,828	(4)
Energy (Power)	259	304	(15)	528		1,228	1,007	22
Corporate	17	49	(65)	109	(84)	240	180	33
EBIT	647	670	(3)	771	(16)	2,442	1,997	22
EPC (Construction)	495	491	1	266	86	1,365	1,318	4
Energy (Power)	135	130	4	395		837	499	68
Corporate	17	49	(65)	109	(84)	240	180	33
EBIT Margin (%)								
EPC (Construction)	18.0	15.1		13.2		16.2	14.9	
Energy (Power)	52.1	42.8		74.9		68.1	49.6	
Corporate	99.4	99.8		100.0		100.0	99.9	

Source: Company, Antique

Valuation: SoTP

SOTP	Valuation Basis	Equity Value (INR mn)	INR/Share
EPC Business	PE @ 20x	42,362	371
Wind Assets	DCF	10,291	90
Transmission assets	DCF	1,028	9
Target Price		53,681	470

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year-ended	March 31	FY16	FY17	FY18e	FY19e	FY20e
Net Revenue		10,972	13,567	14,409	16,338	19,053
Op. Expenses		8,766	10,442	11,317	12,894	15,054
EBITDA		2,206	3,125	3,092	3,444	4,000
Depreciation		494	508	438	457	478
EBIT		1,712	2,617	2,655	2,987	3,522
Other income		629	492	362	378	394
Interest Exp.		443	373	280	260	240
Reported PBT		1,898	2,735	2,737	3,105	3,676
Tax		721	837	579	673	834
Reported PAT		1,177	1,899	2,158	2,432	2,842
Net Profit		1,177	1,899	2,158	2,432	2,842
Adjusted PAT		1,177	1,899	2,158	2,432	2,842
Adjusted EPS (INR)		10.1	16.4	18.9	21.4	25.0

Balance sheet (INRm)

Year-ended	March 31	FY16	FY17	FY18e	FY19e	FY20e
Share Capital						
Reserves & Surplus		9,279	11,070	12,624	14,451	16,688
Networth		9,279	11,070	12,624	14,451	16,688
Debt		4,084	2,099	1,520	1,220	920
Net deferred Tax liabilities		1,025	1,161	1,161	1,161	1,161
Capital Employed		14,387	14,331	15,305	16,832	18,770
Gross Fixed Assets		10,897	9,654	9,424	9,623	9,823
Accumulated Depreciation		2,861	3,368	3,806	4,263	4,741
Capital work in progress		-	-	36	37	37
Net Fixed Assets		8,037	6,286	5,654	5,397	5,119
Goodwill		200	201	-	-	-
Investments		1,561	4,660	3,532	3,532	3,532
Non Current Investments		1,561	4,660	3,532	3,532	3,532
Current Investments						
Current Assets, Loans & Adv.		8,753	7,916	10,920	13,262	16,255
Inventory		379	2	1,260	1,599	2,964
Debtors		4,963	5,596	5,066	5,205	5,205
Cash & Bank balance		1,116	1,032	3,238	4,602	6,231
Loans & advances and others		2,296	1,286	1,356	1,856	1,856
Current Liabilities & Prov.		4,163	4,733	4,801	5,358	6,136
Liabilities		4,132	4,688	4,801	5,358	6,136
Provisions		31	45	-	-	-
Net Current Assets		4,591	3,184	6,119	7,904	10,119
Application of Funds		14,387	14,331	15,305	16,832	18,770

Per share data

Year-ended	March 31	FY16	FY17	FY18e	FY19e	FY20e
No. of shares (m)		114	114	113	113	113
Diluted no. of shares (m)		114	114	113	113	113
BVPS (INR)		81.3	97.0	112.0	128.2	148.1
CEPS (INR)		14.6	21.1	23.0	25.6	29.5
DPS (INR)		1.7	1.8	1.9	1.9	1.9

Source: Company, Antique

Cash flow statement (INRm)

Year-ended	March 31	FY16	FY17	FY18e	FY19e	FY20e
PBT		1,898	2,735	2,737	3,105	3,676
Depreciation & amortisation		494	508	438	457	478
Interest expense		443	373	280	260	240
(Inc)/Dec in working capital		(1,089)	1,543	(859)	(421)	(587)
Tax paid		721	837	579	673	834
Other operating Cash Flow		(2,310)	(2,165)	(1,519)	(1,724)	(2,062)
CF from operating activities		157	3,831	1,655	2,350	2,579
Capital expenditure		2,438	1,243	230	(199)	(200)
Inc/(Dec) in investments		(213)	(3,100)	1,128	-	-
Add: Interest/Div. Income Received		629	492	362	378	394
CF from investing activities		2,854	(1,365)	1,720	179	194
Inc/(Dec) in share capital		(635)	509	-	-	-
Inc/(Dec) in debt		(641)	(1,984)	(579)	(300)	(300)
Dividend Paid		(587)	(587)	(580)	(580)	(580)
Others		(280)	(487)	(10)	(286)	(266)
CF from financing activities		(2,143)	(2,550)	(1,169)	(1,166)	(1,146)
Net cash flow		868	(84)	2,207	1,364	1,628
Opening balance		248	1,116	1,032	3,239	4,602
Closing balance		1,116	1,032	3,239	4,602	6,230

Growth indicators (%)

Year-ended	March 31	FY16	FY17	FY18e	FY19e	FY20e
Revenue(%)		38.2	23.7	6.2	13.4	16.6
EBITDA(%)		6.0	41.7	-1.0	11.4	16.1
Adj PAT(%)		10.8	61.3	13.7	12.7	16.9
Adj EPS(%)		9.9	62.0	15.6	12.8	17.0

Valuation (x)

Year-ended	March 31	FY16	FY17	FY18e	FY19e	FY20e
P/E		36.1	22.3	19.3	17.1	14.6
P/BV		4.5	3.8	3.3	2.8	2.5
EV/EBITDA		20.6	13.7	13.6	11.5	9.5
EV/Sales		414.8	314.4	292.6	242.7	199.4
Dividend Yield (%)		0.5	0.5	0.5	0.5	0.5

Financial ratios

Year-ended	March 31	FY16	FY17	FY18e	FY19e	FY20e
RoE (%)		12.8	18.7	18.2	18.0	18.3
RoCE (%)		16.4	21.6	20.4	20.9	22.0
Asset/T.O (x)		0.9	1.1	1.3	1.5	1.5
Net Debt/Equity (x)		0.4	0.2	0.1	0.1	0.1
EBIT/Interest (x)		5.3	8.3	10.8	12.9	16.3

Margin (%)

Year-ended	March 31	FY16	FY17	FY18e	FY19e	FY20e
EBITDA Margin(%)		20.1	23.0	21.5	21.1	21.0
EBIT Margin(%)		15.6	19.3	18.4	18.3	18.5
PAT Margin(%)		10.7	14.0	15.0	14.9	14.9

Source: Company Antique