

Current Reco	: BUY
Previous Reco	: BUY
CMP	: INR315
Target Price	: INR450
Potential Return	: 43%

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Market data

Sensex	:	34,949
Sector	:	Industrial
Market Cap (INRbn)	:	35.4
Market Cap (USDbn)	:	0.525
O/S Shares (m)	:	112.7
52-wk HI/LO (INR)	:	439/301
Avg Daily Vol ('000)	:	135
Bloomberg	:	TEECIN

Source: Bloomberg

Valuation

	FY18	FY19e	FY20e
EPS (INR)	17.3	20.2	23.9
P/E	18.2	15.6	13.2
P/BV	2.8	2.5	2.2
EV/EBITDA	12.0	11.6	8.8
Dividend Yield (%)	0.6	0.6	0.6

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	(11)	(17)	(19)	(21)
Relative	(11)	(19)	(23)	(30)

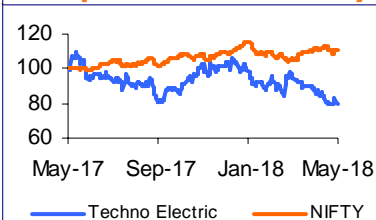
Source: Bloomberg

Shareholding pattern

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

Source: Bloomberg

Price performance vs Nifty



Source: Bloomberg Indexed to 100

4QFY18 RESULT REVIEW

Techno Electric & Engineering Co Ltd

Muted quarter; outlook remains bright

The company reported weaker performance in Q4FY18, below our estimates. The consolidated revenue at INR 3.3bn declined 10% on the back of decline in both EPC business and in Energy business during the quarter. EPC revenue was impacted due to slower execution which is expected to pick up over the next few quarters while the revenue from wind business was impacted due to (1) reduced wind capacity due to sale of 30MW and (2) seasonally weak quarter. For FY18, the revenue declined 5% to INR 12.9bn. The operating performance of the company was weak during the quarter as EBITDA margin declined 210bps to 12.9% as EPC saw 40bps decline along with operating loss in wind power business. At INR 269mn, the PAT declined 9% mainly on the back of (1) weak operating performance, and (2) lower other income. For FY18, the PAT grew 6% to INR 2bn. There have been delays in order finalisation as the company reported INR 0.6bn intake during the quarter. For FY18, the total order intake was INR 12.6bn with order backlog now at INR 20.2bn, providing revenue visibility of about 2 years. Besides orders from private sector, the company is also looking at taping international orders to tide over lower ordering from PGCIL. The company has emphasized on improving the balance sheet through reduced debt (by pre-payment) and collecting receivables / retention during this consolidation phase. We see the company as key beneficiary of (1) increased spending in T&D, (2) uptick in high margin industrial spending, mainly aluminum and refineries. Ergo, we maintain BUY with revised SoTP based target price of INR 450 (INR 470 earlier), valuing the standalone EPC business at 20x (unchanged) its revised FY20E earnings.

Key result highlights

- Consolidated revenue dropped 10% to INR 3.3bn, led by 8% decline in the EPC business. For the full year, there was a 5% dip in revenue on back of 8% decline in EPC while the energy segment recorded an impressive 56% jump.
- The company saw 210bps drop in EBITDA margin at 12.9%, driven by 40bps decline in the EPC operating performance along with Energy segment turning EBIT negative, given seasonally weak quarter for wind business.
- Consolidated PAT at INR 269mn, declined 9%, mainly due to (1) weak operating performance, and (2) 57% drop in other income during the quarter. For FY18, PAT grew 6% to INR 2bn.
- The intake during Q4FY18/FY18 stood at INR 0.6bn/INR 12.6bn. The order book at the end of Q4FY18 was at INR 20.2bn, providing revenue visibility of over 2 years.

Key concall highlights

- FY18 was the year of consolidation with limited growth. The company focused its energies on improving the balance sheet by reducing debt. It has reduced consolidated debt from INR 3bn to INR 0.67bn.
- For FY19, the management has guided for revenue growth of 8-10% with margin of atleast 15%. The company is targeting order intake of INR 15-16bn during FY19 with Q1 at INR 2bn and balance being back ended - mainly in H2FY19.
- The broad order intake expected in FY19 is likely to come from T&D - INR 7.5-8bn with SEBs at INR 2.5bn, PGCIL at INR 2bn and balance from foreign contracts. It expects orders from industry to make up INR 2bn, mainly from Aluminum smelter with balance INR 4bn expected from FGD.
- The company expects the order from Kenya to be finalized by June - July 2018 with execution expected to be completed by September 2020.
- PGCIL is expected to order out more statcomm orders only after seeing the result of the 3 earlier years.
- The company expects to conclude the merger of the company and Simran by the June 2018, which will result in savings on taxation being at MAT for the next 2-3 years.

Quarterly Performance (Consolidated)

(INR m)	4Q FY18	4Q FY17	YoY (%)	3Q FY18	QoQ (%)	FY18	FY17	YoY (%)
Revenue	3,264	3,619	(9.8)	3,015	8.3	12,944	13,567	(4.6)
Raw Material	2,604	2,745	(5.1)	1,982	31.4	8,862	9,325	(5.0)
% of Sales	79.8%	75.9%		65.7%		68.5%	68.7%	
Employee Cost	109	97	12.1	94	15.3	388	346	12.2
% of Sales	3.3%	2.7%		3.1%		3.0%	2.5%	
Other Exp	129	233	(44.4)	203	(36.2)	753	774	(2.8)
% of Sales	4.0%	6.4%		6.7%		5.8%	5.7%	
Total Exp	2,843	3,075	(7.6)	2,279	24.7	10,003	10,445	(4.2)
EBITDA	421	544	(22.6)	736	(42.7)	2,941	3,122	(5.8)
EBITDA Margin (%)	12.9%	15.0%		24.4%		22.7%	23.0%	
Other Income	129	304	(57.4)	17	646.9	370	492	(24.8)
Interest	51	76	(32.8)	39	30.6	235	373	(36.9)
Depreciation	106	110	(3.5)	106	0.4	424	508	(16.6)
PBT (before exceptional)	394	662	(40.5)	608	(35.3)	2,652	2,732	(3.0)
PBT (Reported)	394	662	(40.5)	608	(35.3)	2,652	2,732	(3.0)
Tax	125	367	(66.0)	170	(26.6)	647	837	(22.7)
Tax rate (%)	31.7%	55.4%		28.0%		24.4%	30.6%	
Reported PAT	269	295	(8.9)	438	(38.6)	2,005	1,896	5.7
Share of associates/JV	65	37	75.1	(4)	NM	55	29	90.2
Reported PAT after share of associates/JV	334	333	0.5	434	(23.1)	2,059	1,924	7.0
Adjusted PAT	269	295	(8.9)	438	(38.6)	2,005	1,896	5.7
PAT Margin (%)	8.2%	8.2%		14.5%		15.5%	14.0%	
EPS (Rs)	2.9	2.9	0.5	3.8	(23.1)	18.1	16.9	7.0

Source: Company, Antique

Segmental Performance (Standalone)

(INR m)	4Q FY18	4Q FY17	YoY (%)	3Q FY18	QoQ (%)	FY18	FY17	YoY (%)
Sales	3,425	3,690	(7.2)	3,032	13.0	13,345	13,782	(3.2)
EPC (Construction)	3,282	3,572	(8.1)	2,756	19.1	11,734	12,713	(7.7)
Energy (Power)	14	47	NM	259		1,242	797	55.7
Corporate	129	70	83.9	17	646.9	370	272	35.9
EBIT	445	738	(39.8)	647	(31.3)	2,887	2,803	3.0
EPC (Construction)	440	494	(10.8)	495	(11.1)	1,806	1,814	(0.4)
Energy (Power)	(125)	174	NM	135		712	718	(0.8)
Corporate	129	70	84.0	17	651.1	370	272	35.9
EBIT Margin (%)								
EPC (Construction)	13.4	13.8		18.0		15.4	14.3	
Energy (Power)	NM	368.3		52.1		57.3	90.0	
Corporate	100.0	100.0		99.4		100.0	100.0	

Source: Company, Antique

SOTP

	Valuation Basis	Equity Value (INR mn)	INR/Sh
EPC Business	PE @ 20x	40,445	354
Wind Assets	DCF	9,930	87
Transmission assets	DCF	1,028	9
Target Price		51,403	450

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year-ended	March 31	FY16	FY17	FY18e	FY19e	FY20e
Net Revenue		10,972	13,567	12,944	14,588	17,297
Op. Expenses		8,766	10,442	10,003	11,413	13,597
EBITDA		2,206	3,125	2,941	3,175	3,700
Depreciation		494	508	424	477	499
EBIT		1,712	2,617	2,517	2,698	3,202
Other income		629	492	370	378	394
Interest Exp.		443	373	235	260	240
Reported PBT		1,898	2,735	2,652	2,816	3,356
Tax		721	837	647	514	636
Reported PAT		1,177	1,899	2,005	2,302	2,720
Net Profit		1,177	1,899	2,005	2,302	2,720
Adjusted PAT		1,177	1,899	2,005	2,302	2,720
Adjusted EPS (INR)		10.1	16.4	17.3	20.2	23.9

Balance sheet (INRm)

Year-ended	March 31	FY16	FY17	FY18e	FY19e	FY20e
Share Capital						
Reserves & Surplus		9,279	11,070	12,520	14,218	16,334
Networth		9,279	11,070	12,520	14,218	16,334
Debt		4,084	2,099	247	220	70
Net deferred Tax liabilities		1,025	975	879	879	879
Capital Employed		14,387	14,145	13,645	15,317	17,282
Gross Fixed Assets		10,897	9,635	9,638	9,863	10,063
Accumulated Depreciation		2,861	3,368	3,792	4,269	4,768
Net Fixed Assets		8,037	6,267	5,846	5,594	5,295
Goodwill		200	201	201	201	201
Investments		1,561	4,660	4,503	3,532	3,532
Non Current Investments		1,561	4,660	4,503	3,532	3,532
Current Investments						
Current Assets, Loans & Adv.		8,753	8,282	8,833	11,080	14,122
Inventory		379	2	78	279	393
Debtors		4,963	6,129	7,578	6,305	6,955
Cash & Bank balance		1,116	1,000	418	3,240	4,918
Loans & advances and others		2,296	1,151	758	1,256	1,856
Current Liabilities & Prov.		4,163	5,266	5,738	5,090	5,868
Liabilities		4,132	5,221	5,682	5,039	5,821
Provisions		31	45	56	51	47
Net Current Assets		4,591	3,016	3,095	5,990	8,254
Application of Funds		14,387	14,145	13,645	15,317	17,282

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	111.1	126.2	145.0
CEPS (INR)		14.6	21.1	21.5	24.7	28.6
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	2,652	2,816	3,356
Depreciation & amortisation		494	508	424	477	499
Interest expense		443	373	235	260	240
(Inc)/Dec in working capital		(1,089)	1,524	(175)	144	(586)
Tax paid		721	837	647	514	636
Other operating Cash Flow		(2,310)	(2,165)	(1,664)	(1,405)	(1,665)
CF from operating activities		157	3,813	2,119	2,805	2,479
Capital expenditure		2,438	1,262	(3)	(224)	(200)
Inc/(Dec) in investments		(213)	(3,100)	157	971	-
Add: Interest/Div. Income Received		629	492	370	378	394
CF from investing activities		2,854	(1,346)	524	1,124	194
Inc/(Dec) in share capital		(635)	509	79	-	-
Inc/(Dec) in debt		(641)	(1,984)	(1,852)	(27)	(150)
Dividend Paid		(587)	(587)	(580)	(580)	(580)
Others		(280)	(487)	35	(286)	(266)
CF from financing activities		(2,143)	(2,550)	(2,318)	(892)	(996)
Net cash flow		868	(83)	325	3,037	1,677
Opening balance		248	1,116	1,032	1,357	4,394
Closing balance		1,116	1,032	1,357	4,394	6,072

Growth indicators (%)

Year-ended	March 31	FY16	FY17	FY18e	FY19e	FY20e
Revenue(%)		38.2	23.7	-4.6	12.7	18.6
EBITDA(%)		6.0	41.7	-5.9	8.0	16.5
Adj PAT(%)		10.8	61.3	5.6	14.9	18.1
Adj EPS(%)		9.9	62.0	5.7	16.8	18.3

Valuation (x)

Year-ended	March 31	FY16	FY17	FY18e	FY19e	FY20e
P/E		31.2	19.2	18.2	15.6	13.2
P/BV		3.9	3.2	2.8	2.5	2.2
EV/EBITDA		18.0	11.8	12.0	11.3	8.9
EV/Sales		362.8	272.4	272.1	245.2	189.6
Dividend Yield (%)		0.5	0.6	0.6	0.6	0.6

Financial ratios

Year-ended	March 31	FY16	FY17	FY18e	FY19e	FY20e
RoE (%)		12.8	18.7	17.0	17.2	17.8
RoCE (%)		16.4	21.8	20.8	21.2	22.1
Asset/T.O (x)		0.9	1.1	1.2	1.6	1.7
Net Debt/Equity (x)		0.4	0.2	0.0	0.0	0.0
EBIT/Interest (x)		5.3	8.3	12.3	11.8	15.0

Margin (%)

Year-ended	March 31	FY16	FY17	FY18e	FY19e	FY20e
EBITDA Margin(%)		20.1	23.0	22.7	21.8	21.4
EBIT Margin(%)		15.6	19.3	19.4	18.5	18.5
PAT Margin(%)		10.7	14.0	15.5	15.8	15.7

Source: Company Antique

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