

Techno is countering the slowing T&D business by going to overseas markets for orders. It continues to manage its balance sheet well, bringing down its debt levels significantly. FY18 earnings miss and the lower 10% growth guidance in FY19 spills over on earnings; we downgrade the stock to Reduce with a TP of ₹ 318

Q4FY18 numbers below expectations

Revenue declined 9.8% YoY to ₹ 3,263.9mn, grew 8.3% QoQ from ₹ 3,015mn. EBITDA declined by 22.6% YoY to ₹ 421mn, declined 42.7% QoQ from ₹ 735.6mn. EBITDA margin declined 213 bps YoY to 12.9%, de-grew 1149bps QoQ from 24.4%. Raw material cost de-grew 5.1% YoY to ₹ 2,604.4mn; grew 31.4% QoQ from ₹ 1,982mn. PAT grew marginally 0.4% YoY to ₹ 333.9mn, declined 23.1% QoQ from ₹ 434.4mn. Net Profit Margin grew 104 bps YoY to 10.2%, declined 418bps QoQ from 14.4%. Revenue from EPC Construction business declined by 8.1% YoY to ₹ 3,282.2mn, grew 19.1% QoQ from ₹ 2,756.4mn. Revenue from Energy (Power) business made a loss of ₹ 18.3mn, de-grew 107% QoQ from ₹ 258.6mn

Tepid ordering environment countered by going international

PGCIL ordering which slowed down in FY18, is likely to remain slow in FY19. Similarly, the expected FGD ordering did not materialise with a delayed likelihood of it happening in 2HFY19. Techno expects around ₹ 7-8bn of FGD orders in FY19. To counter the domestic slowdown, the company is going overseas. The management is likely to receive ₹ 2.2bn Afghanistan order and are close to a possible USD100mn Kenya order in Q1FY19.

Orderbook, inflows and growth

The company's current order book is ₹ 20bn and it expects an order inflow of ~₹15-16bn in FY19. Its revenue growth guidance maintained at 10% YoY for FY19 with ~15% margins.

View – Techno is operating in a challenging environment where the market is slow. It's a new entrant in the international business We tweak our estimates for FY19 and FY20, following the FY18 numbers and downgrade it to **Reduce** with a SOTP TP ₹ 318.

Q4FY18 Result (₹ Mn)

Particulars	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)
Operating Income	3,264	3,619	(9.8)	3,015	8.3
Raw Material Cost	2,604	2,745	(5.1)	1,982	31.4
Staff Expenditure	109	97	12.2	94	15.3
Other Expenditure	129	233	(44.4)	203	(36.2)
EBITDA	421	544	(22.6)	736	(42.7)
Other Income	130	304	(57.4)	17	648.4
Depreciation	106	110	(3.4)	106	0.4
Interest	51	76	(32.8)	39	30.6
PBT	394	663	(40.6)	608	(35.3)
Tax	125	367	(65.9)	170	(26.5)
Net Profit	334	333	0.4	434	(23.1)
			bps		bps
Material Cost (%)	79.8	75.9	394	65.7	1,405
Staff Cost (%)	3.3	2.7	65	3.1	20
Other Exps. (%)	4.0	6.4	(246)	6.7	(276)
EBITDA (%)	12.9	15.0	(213)	24.4	(1,149)
NPM (%)	10.2	9.2	104	14.4	(418)

CMP	₹ 314
Target / Upside	₹ 318/1%
BSE Sensex	34,949
NSE Nifty	10,633

Script Details

Equity / FV	₹ 225mn/ ₹ 2/-
Market Cap	₹ 35bn
	USD 0.5bn
52-week High/Low	₹ 439/301
Avg. Volume (no)	235,546
NSE Symbol	TECHNO
Bloomberg Code	TEEC IN

Shareholding Pattern Mar'18 (%)

Promoters	58.8
MF/Banks/FIs	22.3
FIIIs	1.5
Public / Others	17.5

Valuation (x)

	FY18	FY19E	FY20E
P/E	17.2	15.2	13.0
EV/EBITDA	10.2	10.0	8.6
ROE	25.5	22.9	22.4
ROCE	27.0	25.3	27.5

Estimates (₹ mn)

	FY18	FY19E	FY20E
Net Sales	12,944	13,695	14,882
EBITDA	3,458	3,380	3,841
PAT	2,005	2,331	2,706
EPS	18.3	20.7	24.1

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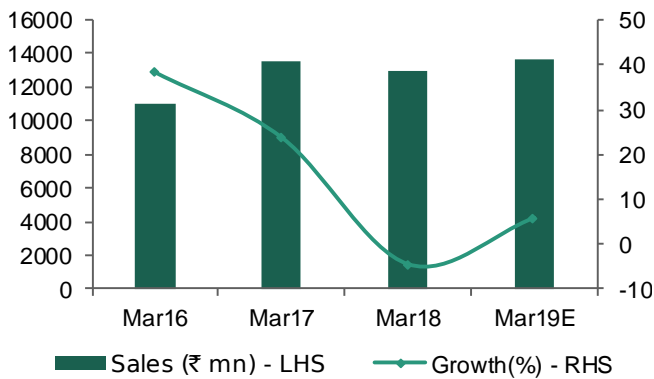
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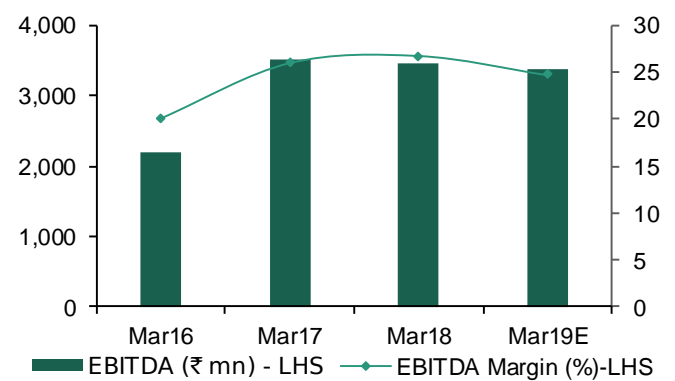


Exhibit 1: SOTP Valuations

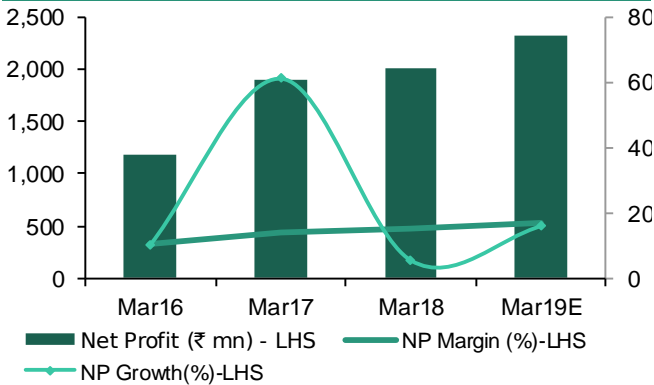
Business Segments	Valuation Method	Multiple (x)	Value (₹ mn)	Value per share (₹)	Comments
EPC	P/E	14	25,851	233	FY20E
Wind Assets	P/B	1.5	5,850	79	Based on FY17 Realisation
TBCB	P/B	2.0	706	6	Based on project equity
Total Fair Value				318	

Exhibit 2: Sales (₹ mn)


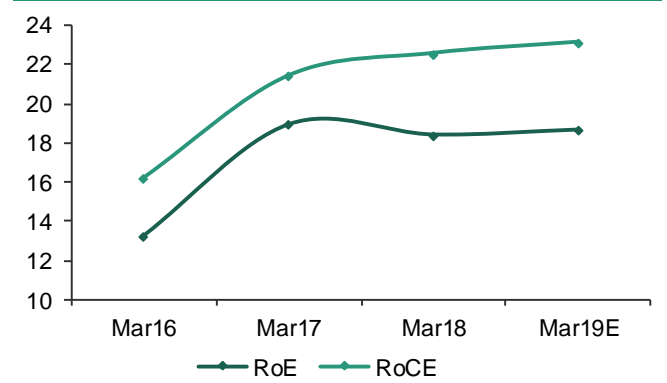
Source: Company, DART

Exhibit 3: EBITDA (₹ mn)


Source: Company, DART

Exhibit 4: Net Profit and Profit margin YoY (₹ mn)


Source: Company, DART

Exhibit 5: RoE & RoCE (%)


Source: Company, DART

Income Statement (₹ mn)

Particulars	Mar17	Mar18P	Mar19E	Mar20E
Net Sales	13,567	12,944	13,695	14,882
Total Expenditure	10,044	9,485	10,315	11,041
Cost of materials consumed	9,325	8,862	9,186	9,924
Employee Benefits Exp.	346	388	457	514
Other Expenses	373	235	672	603
Other Income	492	370	399	431
EBIDTA (Excl. OI)	3,523	3,458	3,380	3,841
EBIDTA (Incl. OI)	4,015	3,828	3,780	4,272
Interest	772	753	206	180
Depreciation	508	424	507	532
Profit Before Tax	2,735	2,652	3,066	3,560
Tax	837	647	736	854
Net Profit	1,899	2,005	2,331	2,706

Balance Sheet (₹ mn)

Particulars	Mar17	Mar18P	Mar19E	Mar20E
Sources of Funds				
Equity Capital	228	225	225	225
Other Reserves	10,842	12,295	13,961	16,009
Net Worth	11,070	12,520	14,186	16,234
Secured Loans	2,099	224	297	347
Unsecured Loans	0	23	100	100
Loan Funds	2,099	247	397	447
Total Capital Employed	13,529	13,126	15,492	17,931
Applications of Funds				
Gross Block	8,844	9,638	10,138	10,638
Less: Accu. Depreciation	2,558	3,792	4,299	4,831
Net Block	6,286	5,846	5,839	5,807
Capital Work in Progress	201	201	201	201
Investments	4,899	4,644	5,544	6,944
Current Assets, Loans & Advances				
Inventories	2	78	75	82
Sundry Debtors	6,129	7,578	8,255	8,970
Cash and Bank Balance	1,000	418	1,800	2,644
Loans and Advances	567	170	195	215
<i>sub total</i>	8,197	8,693	10,773	12,358
Less: Current Liabilities & Provisions				
Current Liabilities	7,149	7,107	7,612	7,951
Provisions	27	30	667	667
<i>sub total</i>	7,176	7,137	8,279	8,618
Net Current Assets	1,021	1,555	2,494	3,740
Total Assets	13,529	13,126	15,492	17,931

E – Estimates

Cash Flow (₹ mn)

Particulars	Mar17	Mar18P	Mar19E	Mar20E
Profit before tax	2,735	2,652	3,066	3,560
Depreciation & w.o.	508	424	507	532
Net Interest Exp.	772	753	206	180
Direct taxes paid	(837)	(647)	(736)	(854)
Change in Working Capital	3,300	(1,115)	442	(401)
(A) CF from Opt. Activities	4,286	1,610	3,489	3,025
Capex	2,051	(794)	(500)	(500)
Free Cash Flow	6,337	816	2,989	2,525
Inc./ (Dec.) in Invt.	(3,087)	255	(900)	(1,400)
(B) CF from Invt. Activities	(1,036)	(539)	(1,400)	(1,900)
Inc./ (Dec.) in Debt	(1,984)	(1,852)	150	50
Interest exp. net	(772)	(753)	(206)	(180)
Dividend Paid (Incl. Tax)	-	-	(667)	(667)
(C) CF from Financing	(2,642)	(2,608)	(723)	(796)
Net Change in Cash	(116)	(581)	1,381	845
Opening Cash balances	1,116	1,000	418	1,800
Closing Cash balances	1,000	418	1,800	2,644

Important Ratios

Particulars	Mar17	Mar18P	Mar19E	Mar20E
(A) Measures of Performance (%)				
EBIDTA Margin (excl. O.I.)	26.0	26.7	24.7	25.8
Interest / Sales	5.7	5.8	1.5	1.2
Tax/PBT	30.6	24.4	24.0	24.0
Net Profit Margin	14.2	15.9	17.0	18.2
(B) As Percentage of Net Sales				
Raw material cost	68.7	68.5	67.1	66.7
Employee Benefits Expense	2.5	3.0	3.3	3.5
Other Expenses	2.8	1.8	4.9	4.1
(C) Measures of Financial Status				
Debt / Equity (x)	0.2	0.0	0.1	0.1
Interest Coverage (x)	5.2	5.1	18.3	23.7
Average Cost of Debt (%)	25.0	64.1	64.1	42.6
Debtors Period (days)	165	214	220	220
Closing stock (days)	0.1	2.2	2.0	2.0
Inventory Turnover Ratio (x)	6,192.2	165.3	181.4	182.4
Fixed Assets Turnover (x)	1.5	1.3	1.4	1.4
WC Turnover (x)	13.3	8.3	5.5	4.0
Non-Cash WC (₹ Mn)	21	1,137	695	1,096
(D) Measures of Investment				
EPS (₹) (excl. EO)	16.9	18.3	20.7	24.1
CEPS (₹)	21.3	22.1	25.2	28.8
DPS (₹)	0.0	0.0	4.9	4.9
Dividend Payout (%)	0.0	0.0	23.8	20.5
Profit Ploughback (%)	100.0	100.0	76.2	79.5
Book Value (₹)	97.0	111.2	126.0	144.2
RoANW (%)	18.9	17.5	17.5	17.8
RoACE (%)	25.9	25.5	22.9	22.4
RoAIC (%)	28.1	27.0	25.3	27.5
(E) Valuation Ratios				
CMP (₹)	314.1	314.1	314.1	314.1
P/E (x)	18.6	17.2	15.2	13.0
Market Cap. (₹ Mn)	35,368	35,368	35,368	35,368
MCap/ Sales (x)	2.6	2.7	2.6	2.4
EV (₹ Mn)	36,467	35,196	33,965	33,170
EV/Sales (x)	2.7	2.7	2.5	2.2
EV/EBDITA (x)	10.4	10.2	10.0	8.6
P/BV (x)	3.2	2.8	2.5	2.2
FCFF Yield (%)	5.0	(2.5)	4.9	4.4
Dividend Yield (%)	0.0	0.0	1.6	1.6

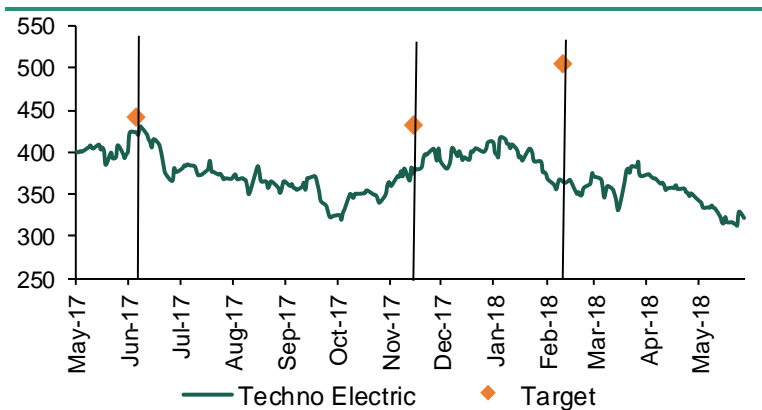
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
Jun-17	Reduce	440	424
Nov-17	Accumulate	431	378
Feb-18	Accumulate	405	363

* As on Recommendation Date

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