

TECHNO ELECTRIC & ENGINEERING

Stellar quarter; poised for robust growth

India Equity Research | Engineering and Capital Goods



Techno Electric & Engineering (TEEC) delivered exceptionally good Q1FY18 earnings with 50% top line surge as customers pushed for early execution in T&D EPC projects in order to avail tax benefits before GST. We expect growth to moderate going ahead (10% growth in 9mFY18E) and management too maintained FY18 revenue guidance of 15-20% growth. During Q1FY18, TEEC reported INR5.5bn order intake (up 50% YoY). We envisage healthy revenue momentum for the company's EPC arm over FY17-19 (20% plus growth) riding 2.0x strong revenue visibility and estimated INR20bn new order intake in FY18. The wind business is also on a strong turf as the challenge of grid availability has eased. Maintain 'BUY' with SOTP-based TP of INR425.

EPC business delivers stellar quarter; wind business going strong

TEEC reported 52%, 43% and 43% revenue, EBITDA and PAT growth, respectively, in Q1FY18 riding 60% surge in the T&D EPC business. This was a rare feat as other T&D EPC companies like KEC and KPP posted flat growth. Wind business' top line grew 10% on strong seasonal factor with PLF of 26% and realisation of INR4.5/unit. Like-to-like revenue jumped more than 30% as TEEC sold 30MW recently (base quarter includes higher capacity).

Ordering prospects healthy; traction in industry order encouraging

With implementation of SoX and NoX norms, TEEC is upbeat on the FGD (flue gas desulphurization) business. We believe, this being an electromechanical business, the company has humungous opportunity, particularly from NTPC, with average order size of INR4-5bn. TEEC has also started gaining traction in industry segments like refineries and aluminum, which is encouraging. Management expects INR20bn new orders in FY18, of which INR5bn are expected to be from the new business.

Outlook and valuations: Going strong; maintain 'BUY'

Selective approach to orders, efficient working capital management, uptick in T&D spending and industry ordering reinforce our conviction in TEEC. We estimate EPS CAGR of 21% over FY17-19 primarily led by EPC business. We maintain 'BUY/SP' with TP of INR425. The stock, on consolidated basis, trades at 17.5/15x on FY18/FY19E EPS.

Financials

(INR mn)

Year to March	Q1FY18	Q1FY17	% Chg	Q4FY17	% Chg	FY17	FY18E	FY19E
Net revenues	4,123	2,709	52.2	3,619	13.9	13,567	15,887	19,198
EBITDA	1,016	712	42.7	544	86.7	3,125	3,696	4,337
Adjusted Profit	693	485	43.0	295	134.7	1,899	2,385	2,783
Diluted EPS (INR)	6.2	4.2	44.9	2.6	137.9	16.6	21.2	24.7
Diluted P/E (x)						22.1	17.5	15.0
EV/EBITDA (x)						12.7	10.0	8.2
ROAE (%)						18.9	20.1	20.1

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA (R: TEEC.BO, B: TEEC IN)

CMP	: INR 373
Target Price	: INR 425
52-week range (INR)	: 439 / 243
Share in issue (mn)	: 114.2
M cap (INR bn/USD mn)	: 43 / 664
Avg. Daily Vol.BSE/NSE('000)	: 98.1

SHARE HOLDING PATTERN (%)

	Current	Q4FY17	Q3FY17
Promoters *	58.8	58.0	58.0
MF's, FI's & BK's	17.8	17.9	15.3
FII's	4.9	5.3	8.4
Others	18.5	18.8	18.3
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Capital Goods Index
1 month	(0.0)	(0.9)	2.1
3 months	(8.2)	4.2	(3.7)
12 months	15.7	12.9	(15.2)

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Q1FY18 conference call: Key highlights

Guidance

- Management expects 15-20% revenue growth for EPC business in FY18.
- Order inflow guidance for FY18 is INR20bn, of which INR15bn will be from transmission and INR5bn from new businesses.
- TEEC aims to double its top line and bottom line over the next 3-5 years.

Outlook

- TEEC is seeing traction in oil refineries and aluminum.
- In FY18, the company is planning to concentrate on closing ongoing projects and collecting the retention money.
- The company does not expect any order inflow in Q2FY18 due to GST related hiccups. But expects orders to start flowing from Q3FY18.

Highlights

- Most customers pushed for higher execution during Q1FY18 due to GST. Hence, it proved to be a robust quarter due to faster execution of projects.
- Current order book stands at INR24.50bn, of which PGCL: 60%, NTPC: 10%, SEBs: 25%; BOOT: 10%.
 - Jhajjar KT & Patran are progressing well.
 - Order intake of INR5,500mn in Q1FY18.
 - No L1 positions as new tenders will happen with GST regime.
 - There'll be a negative impact of 2.5% due to GST, but all the contracts have a pass through clause.
 - HPCL's Vizag refinery order placed with EIL whose tender will come out in a few months (LSTK portion of the business). TEEC's scope of work will be between INR1.0bn and INR2.5bn (voltage T&D).
 - Oil & gas segment has 25% operating margin.
 - Capex plan for FY18: INR1bn for BOOT project with Kalpataru.
 - Gross debt stands at INR2bn (short term + long term)
 - Creditors outstanding are 45 days, which is around INR1.5bn.
 - Cash on books stands at INR4.25bn.

Wind segment

- Grid availability has improved over last year.
 - TEEC is seeing further improvement in cost management and bottom line of wind assets.
 - The company has moved 12MW into Simran.
 - PLF is 26% and realisation per unit is around INR4.5.

Table 1: SOTP valuation

Business Segments	Particulars	Amount (INR mn)	Valuation Method	Multiple (x)	Value (INR mn)	Value per share (INR)
EPC	PAT – FY19E	1,884	P/E	20	37,674	334
Energy	Book Value	4,183	P/B	1.5	6,065	54
Project	Book Value	953	P/B	1.5	1,382	12
Cash	Discounted with 14% COE	3,605			2,750	24
Total Fair Value						425

Source: Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q1FY18	Q1FY17	% change	Q4FY17	% change	FY17	FY18E	FY19E
Net revenues	4,123	2,709	52.2	3,619	13.9	13,567	15,887	19,198
Raw material	2,793	1,751	59.5	2,745	1.7	9,325	10,844	13,274
Staff costs	82	72	13.8	97	(15.5)	346	403	469
Other operating expenses	232	174	32.9	233	(0.3)	772	944	1,118
Total expenditure	3,107	1,998	55.5	3,075	1.0	10,442	12,191	14,861
EBITDA	1,016	712	42.7	544	86.7	3,125	3,696	4,337
Depreciation	106	133	(20.2)	110	(3.7)	508	530	540
EBIT	910	579	57.1	434	109.6	2,617	3,166	3,797
Other income	114	82	38.5	304	(62.5)	492	516	486
Interest	86	92	(7.0)	76	13.1	373	416	380
Add: Exceptional items		(4)	(100.0)					
Profit before tax	939	565	66.1	663	41.7	2,735	3,267	3,904
Provision for taxes	245	85	190.4	367	(33.2)	837	865	1,102
Minority interest							(17)	(19)
Reported net profit	693	481	44.3	295	134.7	1,899	2,385	2,784
Adjusted Profit	693	485	43.0	295	134.7	1,899	2,385	2,783
Equity capital(FV INR 2)	225	114		114		228	225	225
Diluted shares (mn)	113	114		114		114	113	113
Diluted EPS (INR)	6.2	4.2	44.9	2.6	137.9	16.6	21.2	24.7
As a % of revenues								
Direct costs	67.7	64.6		75.9		68.7	68.3	69.1
Employee cost	2.0	2.7		2.7		2.5	2.5	2.4
Other expenses	5.6	6.4		6.4		5.7	5.9	5.8
EBITDA	24.6	26.3		15.0		23.0	23.3	22.6
Reported net profit	16.8	17.9		8.2		14.0	15.0	14.5
Tax rate	26.1	15.0		55.4		30.6	26.5	28.2

Company Description

TEEC was incorporated in 1963 by the Mohankas to provide EPC services to core sector industries in India. The company went public in 1973. In 1983, it was taken over by Mr. P.P. Gupta and Mr. C.L. Chamaria. Mr. Gupta became the sole promoter of TEEC after Mr. Chamaria's resignation from the board in 1995. The company is headquartered in Kolkata. TEEC boasts of an experienced team of over 175 engineers backed by 225 skilled professionals and 100 staff members. More than 80% of the company's business comes from repeat customers, a testimony to its execution capability. TEEC is a leading EPC services company in India's power sector and provides services to all the 3 industry segments—generation, transmission and distribution. It was involved in setting up (in one capacity or other) over 50% of the country's thermal power generation capacity and a major portion of the national power grid. It also possesses specific domain knowledge that enables it to serve the EPC needs of power, steel, fertiliser, metals and petrochemicals sectors, among others. It ventured into renewable energy via acquisition of wind assets in 2009. Its total installed capacity currently stands at 130MW (having sold 44.45MW in May 2015 and 33MW in Jan 17) with 12MW in standalone entity and balance 117.9MW in subsidiary Simran Wind Projects (Simran). In 2010, the company ventured into BOOT projects via the JV route as it bagged transmission project worth INR4.4bn in Haryana for a concession period of 25 years extendable by another 10 years. Subsequently, TEEC bagged another project worth INR2bn in Punjab in 2013. The company plans to extend / scale up this business further.

Investment Theme

INR2.6tn opportunities in EPC across power, industrial segments

Given the government's sharpened focus on cutting AT&C losses and thrust on renewables, we expect T&D spending to turn the spotlight on higher kV substations, in addition to spending on the green energy corridor to connect renewable energy to the grid. We envisage generation, transmission and distribution to throw up total EPC opportunity of INR2,602bn (INR520bn p.a.) over the next 5 years for TEEC. We anticipate it to corner ~10% of this. Uptick in industrial and exports would be over and above this.

Competitive MOAT: Selective approach with eye on RoE, cash flows

Engineering expertise to handle complex jobs is TEEC's forte. Moreover, the company is extremely selective in project bidding given its focus on complex jobs which normally entail higher profitability and cash flows. It bids for projects funded by either bilateral, multilateral or government funding agencies like PFC or REC to ensure reliable payments and cash flows.

Key Risks

- Delayed ordering, execution in power sector, currency risk
- Deffered uptick in industrial capex due to contagion
- Heightened competitive intensity could impact profitability
- Lower utilisation and evacuation issues in wind power assets
- Delay in BOOT projects

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.0	67.5	66.0	66.0
Company				
Order intake growth (%)	-	(17.0)	40.0	10.0
Revenue growth (%)	51.8	19.4	19.9	22.2
EBIT Margins (%)	14.1	14.6	15.2	15.4
Wind capacity (MW)	161.8	161.8	128.8	128.8
PLF (%)	16.0	23.4	22.0	22.0
Capex (INR mn)	(1,920)	(1,243)	150	150

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Income from operations	10,972	13,567	15,887	19,198
Materials costs	7,816	9,325	10,844	13,274
Employee costs	299	346	403	469
Other mfg expenses	652	772	944	1,118
Total operating expenses	8,766	10,442	12,191	14,861
EBITDA	2,206	3,125	3,696	4,337
Depreciation	494	508	530	540
EBIT	1,712	2,617	3,166	3,797
Add: Other income	375.22	491.53	516.11	485.96
Less: Interest Expense	443	373	416	380
Add: Exceptional items	254	-	-	-
Profit Before Tax	1,898	2,735	3,267	3,903
Less: Provision for Tax	721	837	865	1,102
Less: Minority Interest	-	-	17	19
Associate profit share	23	29	15	19
Reported Profit	1,177	1,927	2,400	2,801
Exceptional Items	254	-	-	-
Adjusted Profit	923	1,927	2,400	2,801
Shares o/s (mn)	114	114	113	113
Adjusted Basic EPS	8.1	16.9	21.3	24.9
Diluted shares o/s (mn)	114	114	113	113
Adj. Diluted EPS (INR)	8.1	16.9	21.3	24.9
Adjusted Cash EPS	14.5	22.5	26.0	29.7
Dividend per share (DPS)	5.0	5.0	5.0	4.0
Dividend Payout Ratio(%)	58.2	35.5	28.2	19.3

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	79.9	77.0	76.7	77.4
Materials costs	71.2	68.7	68.3	69.1
Staff costs	2.7	2.5	2.5	2.4
S G & A expenses	5.9	5.7	5.9	5.8
Depreciation	4.5	3.7	3.3	2.8
Interest Expense	4.0	2.8	2.6	2.0
EBITDA margins	20.1	23.0	23.3	22.6
Net Profit margins	8.4	14.2	15.1	14.6

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	38.2	23.7	17.1	20.8
EBITDA	6.0	41.7	18.3	17.3
Adjusted Profit	(12.2)	108.7	24.5	16.7
EPS	(12.2)	108.7	26.2	16.7

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	114	228	225	225	
Reserves & Surplus	9,164	10,842	12,566	14,826	
Shareholders' funds	9,278	11,070	12,791	15,051	
Minority Interest	-	-	17	35	
Short term borrowings	1,015	-	-	-	
Long term borrowings	3,068	2,099	2,153	2,353	
Total Borrowings	4,084	2,099	2,153	2,353	
Long Term Liabilities	98	213	213	213	
Sources of funds	14,349	14,418	16,210	18,689	
Gross Block	10,897	9,653	9,803	9,953	
Net Block	8,037	6,285	5,905	5,515	
Intangible Assets	200	201	201	201	
Total Fixed Assets	8,237	6,486	6,106	5,716	
Non current investments	634	789	1,039	1,289	
Cash and Equivalents	2,042	4,903	6,072	7,476	
Inventories	379	2	297	364	
Sundry Debtors	4,963	5,596	6,747	8,152	
Loans & Advances	380	33	459	527	
Other Current Assets	1,766	1,067	1,067	1,067	
Current Assets (ex cash)	7,488	6,698	8,569	10,110	
Trade payable	2,875	3,407	3,875	4,337	
Other Current Liab	1,177	1,051	1,701	1,565	
Total Current Liab	4,052	4,458	5,576	5,903	
Net Curr Assets-ex cash	3,436	2,240	2,993	4,207	
Net Deferred tax	889	1,036	1,036	1,036	
Uses of funds	14,349	14,418	16,210	18,689	
BVPS (INR)	81.3	97.0	113.5	133.6	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	1,177	1,927	2,400	2,801	
Add: Depreciation	494	508	530	540	
Interest (Net of Tax)	275	259	306	273	
Others	(38)	114	127	126	
Less: Changes in WC	1,583	(632)	753	1,215	
Operating cash flow	325	3,440	2,609	2,525	
Less: Capex	(1,920)	(1,243)	150	150	
Free Cash Flow	2,245	4,683	2,459	2,375	

Cash flow metrics		FY16	FY17	FY18E	FY19E
Year to March					
Operating cash flow		325	3,440	2,609	2,525
Investing cash flow		1,994	1,088	(400)	(400)
Financing cash flow		(1,451)	(2,928)	(1,041)	(721)
Net cash Flow		868	1,600	1,169	1,404
Capex		1,920	1,243	(150)	(150)
Dividend paid		(309)	(685)	(676)	(541)
Share issue/(buyback)		-	-	(3)	-

Profitability and efficiency ratios		FY16	FY17	FY18E	FY19E
Year to March					
ROAE (%)		9.9	18.9	20.2	20.2
ROACE (%)		15.2	23.4	26.2	26.4
Inventory Days		10	7	5	9
Debtors Days		140	142	142	142
Payable Days		99	123	123	113
Cash Conversion Cycle		51	27	24	38
Current Ratio		2.4	2.6	2.6	3.0
Debt/EBITDA (x)		1.9	0.7	0.6	0.5
Gross Debt/Equity		0.4	0.2	0.2	0.2
Adjusted Debt/Equity		0.4	0.2	0.2	0.2
Interest Coverage Ratio		3.9	7.0	7.6	10.0

Operating ratios		FY16	FY17	FY18E	FY19E
Year to March					
Total Asset Turnover		0.8	0.9	1.0	1.1
Fixed Asset Turnover		0.6	1.8	2.5	3.2
Equity Turnover		2.4	2.7	1.3	1.4

Valuation parameters		FY16	FY17	FY18E	FY19E
Year to March					
Adj. Diluted EPS (INR)		8.1	16.9	21.3	24.9
Y-o-Y growth (%)		(12.2)	108.7	26.2	16.7
Adjusted Cash EPS (INR)		14.5	22.5	26.0	29.7
Diluted P/E (x)		46.1	22.1	17.5	15.0
P/B (x)		4.6	3.8	3.3	2.8
EV / Sales (x)		4.1	2.9	2.3	1.9
EV / EBITDA (x)		20.2	12.7	10.3	8.5
Dividend Yield (%)		1.3	1.3	1.3	1.1

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Techno Electric & Engineering	664	17.5	15.0	3.3	2.8	20.2	20.2
Kalpataru Power	841	16.2	13.8	1.9	1.7	12.7	13.3
KEC International	1,146	20.6	16.9	3.9	3.2	20.4	20.7
Median	-	17.5	15.0	3.3	2.8	20.2	20.2
AVERAGE	-	18.1	15.2	3.0	2.6	17.8	18.1

Source: Edelweiss research

Additional Data

Directors Data

P P Gupta	Chairman	K K Rai	Independent Non-Executive Director
K M Poddar	Independent Non-Executive Director	K Vasudevan	Independent Non-Executive Director
S N Roy	Independent Non-Executive Director	VD Mohile	Independent Non-Executive Director
Ankit Saraiya	Director	Avantika Gupta	Director
Dr. Rajendra Prasad Singh	Independent Director		

Auditors - S.S. Kothari & Co

Holding – Top10

	Perc. Holding		Perc. Holding
Varanasi commercial	21.55	Kusum industrial gas	12.78
Techno leasing & fin	12.08	Dsp blackrock invest	6.99
Techno power project	5.61	J p financial serv p	5.09
J p financial srvs p	4.83	L&t investment manag	3.82
Kotak mahindra	3.07	Grantham mayo van ot	2.31

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
29 Mar 2017	Kusum Industrial Gases Ltd.	Buy	425000.00
29 Mar 2017	Padam Prakash Gupta	Sell	300000.00
29 Mar 2017	Trimurti Associates Pvt Ltd	Buy	35000.00
29 Mar 2017	Checons Ltd	Buy	225000.00
29 Mar 2017	Varanasi Commercial Ltd	Buy	215000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
ABB India	BUY	SO	L	Bharat Forge	BUY	SO	M
Bharat Heavy Electricals	BUY	SO	M	CG Power and Industrial Solutions	HOLD	SP	M
Cummins India	BUY	SO	L	Engineers India Ltd	BUY	SO	L
Greaves Cotton	HOLD	SP	M	Kalpataru Power	BUY	SO	M
KEC International	BUY	SP	M	Larsen & Toubro	BUY	SO	M
Praj Industries	BUY	None	None	Ramkrishna Forgings	BUY	SP	M
Siemens	HOLD	SP	L	TD Power Systems	HOLD	None	None
Techno Electric & Engineering	BUY	SO	M	Thermax	REDUCE	SP	L
Triveni Turbine	BUY	None	None	VA Tech Wabag	BUY	None	None

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss
Ideas create, values protect

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Coverage group(s) of stocks by primary analyst(s): Engineering and Capital Goods

ABB India, Bharat Heavy Electricals, Bharat Forge, CG Power and Industrial Solutions, Engineers India Ltd, Greaves Cotton, KEC International, Cummins India, Kalpataru Power, Larsen & Toubro, Praj Industries, Ramkrishna Forgings, Siemens, TD Power Systems, Techno Electric & Engineering, Thermax, Triveni Turbine, VA Tech Wabag

Recent Research

Date	Company	Title	Price (INR)	Recos
11-Aug-17	Kalpataru Power	Q1 revenue miss, but positives galore; <i>Result Update</i>	344	Buy
11-Aug-17	Bharat Forge	Strengthening supply mandates, US exports: Potent positives; <i>Result Update</i>	1,143	Buy
11-Aug-17	BHEL	Q1 miss led by provision, reasonable prospects visible; <i>Result Update</i>	127	Buy

Distribution of Ratings / Market Cap

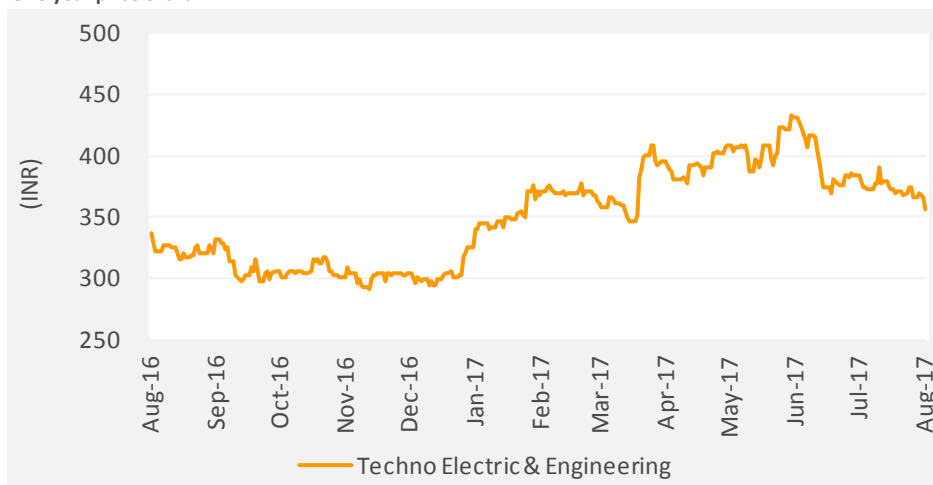
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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