

Power-packed performance

We retain Buy rating on Techno Electric (TEEC), with a revised TP of Rs890. EBITDA earnings bounced YoY owing to higher EPC execution and EBITDA margin of 14.5% coupled with higher PLF and tariff from wind segment. The outlook appears robust, with a ~Rs30bn order book having +Rs10bn of order bid pipeline and margin guidance slightly ahead of estimates. The wind business performance was weak in FY16, but a sharp pick-up in PLF in 1HFY17 so far, favourable HC verdict and an average tariff increase of 15-20% will lead to strong performance in FY17. The guidance to monetise the balance wind asset entailing an EV of about Rs8.3bn is intact and has the potential to unfold shareholder value in the long term. Additionally, our inference of average RoE of 35% on EPC segment and average RoCE of 86% for the forecast period, FCF yield of 4% in FY18E, and low D:E of 0.4x in FY18E make it a compelling investment bet.

- EPC business – powering growth:** TEEC reported a strong revenue execution at Rs2.3bn (+30% YoY and -28% QoQ); however, PBIT of Rs335mn (+46% YoY and -39% QoQ) was very strong owing to strong order book and execution. The PBIT margin was strong at 14.5% vs 12.9% in Q1FY16. The company bagged another Statcom order of Rs2.3bn, order book remains healthy at Rs30bn and Management has guided for a strong bid pipeline; hence, traction in order book will provide firm revenue and margin visibility beyond FY18E. TEEC's asset-light approach, project expertise of more than three decades, ability to bag high-margin orders despite fierce competition, timely and seamless execution, focus on cash generation, low gearing, ability to optimise on fixed costs and consequent consistent delivery of best-in-class EBITDA, RoE and RoCE make its business model unparalleled in the industry.
- Wind business snapshot:** The wind business was seasonally strong and aided by the 'must-run' status accorded to wind assets in the state by Tamil Nadu SEB. We infer an average PLF at nearly 24% vs 13.9% in Q1FY16. This coupled with a back-ended tariff hike in Q1FY17 led to growth in revenue at Rs0.4bn (+69% YoY). The full impact of tariff hike would be reflected from Q2FY17 onwards, and a strong growth thereafter is likely. PBIT for wind segment was at Rs239mn vs adjusted PBIT of Rs102mn in Q1FY16. In Tamil Nadu, TNERC order and a favourable HC verdict for Techno will provide a blended 15-20% tariff hike for wind power plants, which will improve profitability and cash flows. With plans to exit wind business possibly rolling over to FY18E at 1x EV, TEEC has the potential to realise about Rs8.3bn, which we have not factored in. (Refer to our Flash note dated 14 May 2015 on impact analysis post part sale of 45MW.)
- Outlook and what-if scenario:** Management is confident of the potential to expand the EPC segment as a result of capex revival, led by PGCIL and SEBs, with strong visibility of traction in order book. With a healthy order book of Rs30bn (including L1 order) which creates firm revenue visibility extending beyond two years, we believe the Management's philosophy of attaching significance to margins, leverage and cash flow rather than just order intake will remain intact. EBITDA margin guidance is maintained at 14-15% over the next few years vs 14.5% factored in, providing an upside potential. Our what-if scenario on potential complete stake sale from wind asset (163 MW) reveals that an EV/MW of Rs56mn (average cost of acquisition) can potentially add Rs25 to our current TP of Rs890.
- Valuation and risks:** Our TP of Rs890 is based on SoTP of Mar'18E, derived by assigning PE(x) of 22.5x its EPC earnings, P/B(x) to wind asset, cash and investments and DCFE-based valuation to BOOT/BOOM projects. TEEC's superior earnings, lower PEG(x) and FCF yield of 4% cap the downside. Key downside risks are (1) slowdown in EPC order book and (2) lower PLF and earnings in wind assets.

Y/E Mar – Consol. (Rsmn)	Q1FY17	Q1FY16	YoY (%)	Q4FY16	QoQ (%)	Q1FY17E	Var (%)
Net sales	2,678	1,999	34.0	3,258	(17.8)	2,830	(5.4)
EBITDA	712	450	58.2	506	40.7	750	(5.1)
RPAT	480	377	27.2	284	69.1	422	13.7

Operating Metrics

EPC – PBIT	335	229	46.4	548	(38.8)	332	1.0
Wind PBIT (adjusted)	239	102	135.0	(109)	(319.4)	268	(10.6)

Source: Company, Centrum Research

Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	APAT	YoY (%)	Adj.DEPSRs.	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY14	7,085	1.2	1,925	27.6	887	(27.6)	15.5	11.0	8.3	44.0	22.2
FY15	7,939	12.1	2,080	26.5	1,063	19.9	18.6	12.1	8.5	36.7	20.7
FY16	10,972	38.2	2,122	19.4	1,152	8.4	20.2	11.9	7.6	33.8	19.5
FY17E	14,434	31.5	3,187	22.2	2,057	78.6	36.0	18.8	13.0	18.9	12.3
FY18E	18,516	28.3	3,664	19.9	2,537	23.3	44.4	20.0	14.0	15.4	10.5

Source: Company, Centrum Research Estimates

Target Price	Rs890	Key Data	
CMP*	Rs682.8	Bloomberg Code	TEEC IN
Upside	30.4%	Curr Shares O/S (mn)	57.1
Previous Target	Rs710	Diluted Shares O/S(mn)	57.1
Previous Rating	Buy	Mkt Cap (Rsbn/USDmn)	39/583.7
Price Performance (%)*		52 Wk H / L (Rs)	720/418.1
	1M	6M	1Yr
		5 Year H / L (Rs)	
TEEC IN	13.8	43.1	30.4
NIFTY	4.3	17.5	1.4
		Daily Vol. (3M NSE Avg.)	
		40011	

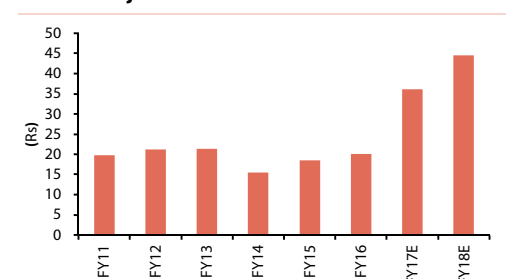
*as on 5 August 2016; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Jun-16	Mar-16	Dec-15	Sep-15
Promoter	58.0	58.0	58.0	58.0
Flls	7.9	6.4	11.9	8.6
Dom. Inst.	17.7	17.3	17.4	16.3
Public & Others	16.4	18.3	12.7	17.1

Source: BSE, *as on 5 August 2016

Trend in Adj. EPS



Source: Company, Centrum Research

Earning Revision

Particulars (Rsmn)	FY17E			FY18E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	14,434	14,709	(1.9)	18,516	18,816	(1.6)
EBITDA	3,187	3,278	(2.8)	3,664	3,681	(0.4)
RPAT	2,057	1,631	26.1	2,537	2,030	25.0

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rsmn)	FY17E			FY18E		
	Centrum	BBG	Chg (%)	Centrum	BBG	Chg (%)
Revenue	14,434	14,039	2.8	18,516	16,881	9.7
EBITDA	3,187	2,993	6.5	3,664	3,406	7.6
RPAT	2,057	1,774	16.0	2,537	2,175	16.6

Bloomberg Consensus				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
12	0	0	656	890	35.6

*as on 5 August 2016; Source: Bloomberg, Centrum Research Estimates

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Valuation and View

We have arrived at a TP of Rs890 using SoTP valuation based on Mar'18E. We have valued the EPC business by assigning a fair PE(x), and valued wind business at 1x equity, cash and liquid investments at 1x book value, and BOOT & BOOM projects at DCFE.

Exhibit 1: SoTP Valuation

Methodology	Fair Multiple assigned to Mar-18E	Fair price (Rs)	Valuation Base
PE (x) to EPC's EPS	22.5	727	Applied a PE(x) of 22.5x based on average RoE of 35% over FY17-18E, CoE of 10.6% and terminal growth rate of 7%
P/B(x) to equity invested in wind assets	1	57	P/B of 1x equity
DCF at 13% to Jhajjar KT (49% share)		11.2	Risk-free rate at 7.3%, beta at 1, zero terminal value in FY37E
DCF at 13% to Patran (49% share)		4.6	Risk-free rate at 7.3%, beta at 1, zero terminal value in FY51E
Cash and Investments		86	At 1x Mar-18E BV
Fair price (rounded-off)		890	

Source: Company, Bloomberg, Centrum Research Estimates

We have revised our earnings to primarily factor in marginally higher EPC EBITDA margin at 14.5% vs ~13-13.3% earlier, noting the strong execution and firm visibility on delivery of margins over FY17-18E. Additionally, the shareholding in Patran project is reduced to 49% vs 100% earlier. This has a marginal adverse impact of Rs~4 on our SoTP price target and on earnings. The promoters have infused 51% stake in the project. The rationale is to hand-hold Patran SPV and transfer it at the same par value back to Techno Electric once it reports profits. We, thus, do not see it as a red flag as the ownership is with promoters and intent is transparent. Also, the annualised tax rate has been lowered to 20% from 28% considered earlier – in line with Management guidance (In FY16, adjusting for tax of Rs215mn on wind asset sale, annualised implied tax rate is 16.6%). As a margin of safety to our earnings, we like to highlight that against a Management guidance of wind PLF of 23-25% in FY17E, we maintain our PLF of 20%/18% in FY17/18E. The impact of IND-AS was reported to be at Rs4.49mn owing to MTM of foreign exchange exposure, which has been adjusted by us in finance costs.

Our target price has been revised owing to higher multiple derived for EPC segment after reduction in cost of equity to 10.6% from 13.3% earlier. The reduction in cost of equity is led by lower beta as per Bloomberg at 0.65 vs 1.06 earlier and aligning the risk-free rate to 7.3% (currently at 7.2%) vs 8% considered earlier (average of FY16 at 7.8%). The company has announced a 1:1 bonus and our target price will adjust accordingly once the book closure dates are announced and it trades ex-bonus.

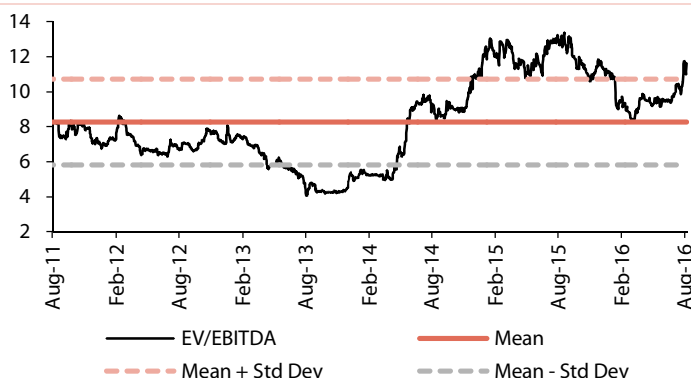
Techno Electric has guided for additional growth in order book, bid pipeline and EPC revenue if the company successfully bids for solar EPC contracts with a ticket size of Rs5-8bn, albeit at lower EBITDA margin of 8-10% vs +14% earned in conventional EPC contracts. It is also awaiting bidding participation in some upcoming BOOT/BOOM projects in north-east India that have a ticket size of Rs5-6bn.

Exhibit 2: Sensitivity Analysis to FY17E

Sensitivity to key variables	(%)Change	% impact on EBITDA	% impact on EPS
Increase in EPC revenue	5	2.9	3.6
Increase in wind revenue	5	2.1	2.5

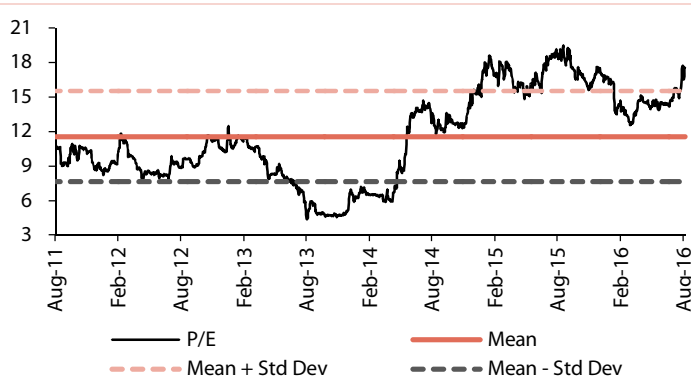
Source: Company, Centrum Research Estimates

Exhibit 3: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 4: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 5: Comparative Valuations

Company	Mkt. Cap (Rsmn)	CAGR FY16-FY18E (%)			EBITDA Margin (%)			P/E (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
Techno Electric	38,979	29.9	31.4	48.4	19.4	22.2	19.9	33.8	18.9	15.4	19.5	12.3	10.5	11.9	18.8	20.0	0.7	1.0	1.3
KEC International*	36,198	6.1	14.5	23.2	8.1	8.4	8.5	18.9	14.4	12.0	7.9	7.5	6.6	13.5	15.5	16.2	0.8	0.9	1.0
Gayatri Projects*	24,666	21.4	25.2	78.8	25.3	14.5	14.6	NM	31.8	19.4	14.2	DNA	DNA	0.2	8.9	12.8	DNA	DNA	DNA
Kalpataru Power Trans*	39,700	12.7	14.4	22.1	11.0	10.2	10.3	33.9	15.8	13.3	7.7	8.1	6.9	5.2	10.5	11.3	0.7	0.9	0.9
BHEL*	337,035	5.7	(27.1)	1.4	(7.5)	2.3	5.3	(37.6)	49.8	21.8	DNA	33.1	11.6	(2.7)	2.2	4.7		0.7	1.3
Larsen & Toubro*	1,409,382	11.9	10.5	11.1	12.4	11.9	12.3	27.7	26.4	21.5	16.3	17.9	16.0	12.0	11.4	12.7	1.5	1.2	1.4
BGR Energy Systems*	8,753	115.8	83.7	262.8	9.7	6.0	5.6	31.7	15.7	20.6	8.2	DNA	DNA	2.1	4.7	4.2	DNA	DNA	DNA
Alstom T&D India*	89,194	9.8	14.8	32.6	7.9	9.5	10.8	115.0	47.6	31.9	43.4	DNA	DNA	5.9	13.5	18.5	0.4	0.9	1.0
Siemens*#	460,731	8.5	14.4	(3.8)	10.1	11.3	11.6	66.3	51.6	44.2	39.4	31.7	27.7	12.3	14.1	15.1	1.8	0.7	0.7
Reliance Infra*	157,307	5.3	(4.3)	2.3	21.8	16.3	15.9	8.0	10.1	9.6	9.0	DNA	DNA	7.2	6.9	7.0	DNA	1.8	2.0
LancoInfratech*	12,922	25.5	31.7	(38.0)	29.1	20.5	27.2	(4.6)	(1.5)	(2.5)	19.3	DNA	DNA	DNA	80.6	20.4	DNA	DNA	DNA
ABB India*	258,412	9.7	18.8	32.9	9.2	9.0	9.8	86.2	66.5	49.1	32.4	32.0	25.3	10.3	12.5	15.1	0.3	0.4	0.5

Source: *Bloomberg, Centrum Research Estimates; NA: Details are not available, *# as on Sep15, DNA: Details not available

Quarterly financials, Operating metrics and Key performance indicators

Exhibit 6: Quarterly Financials - Consolidated

Particulars (Rsmn)	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Net Sales	2,038	1,800	2,209	1,999	2,489	3,164	3,258	2,678
Consumption of raw material	1,109	1,139	1,634	1,375	1,438	2,549	2,770	1,475
Other Expenses	170	140	137	161	143	178	222	174
Total Operating expenses	1,315	1,417	1,822	1,565	1,704	2,797	2,754	1,998
EBITDA	766	397	389	450	827	370	506	712
Depreciation	175	172	85	119	118	117	140	133
Interest	117	106	98	89	95	88	110	97
Other Income	60	38	74	46	63	171	94	82
PBT	535	157	280	288	677	336	350	565
Tax (including deferred tax)	51	32	72	158	207	45	76	84
RPAT (after minority interest)	467	123	227	377	467	277	284	480
YoY Growth (%)								
Net Sales	22.7	23.4	0.3	10.7	22.1	75.8	47.5	34.0
EBITDA	13.5	1.0	41.5	(14.9)	7.9	(6.9)	29.9	58.2
PAT	25.9	(64.6)	NM	59.1	(2.1)	125.0	26.8	27.2
Margins (%)								
EBITDA	37.6	22.0	17.6	22.5	33.2	11.7	15.5	26.6
APAT	23.8	7.0	9.4	6.5	18.9	9.2	8.4	17.9
Segment Revenue								
EPC	1,509	1,582	2,167	1,779	2,017	3,128	3,218	2,311
Wind	590	220	40	235	514	39	41	399
Corporate	44	50	79	46	63	171	94	82
Segment PBIT								
EPC	230	199	347	229	322	327	548	335
Wind	371	11	(31)	349	385	(87)	(109)	239
Corporate	44	50	79	46	63	171	94	82
Segment PBIT Margins (%)								
EPC	15.3	12.6	16.0	12.9	15.9	10.4	17.0	14.5
Wind	62.8	5.2	(77.4)	148.2	74.9	(226.0)	(263.6)	60.0
Corporate	100.6	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, Centrum Research

Exhibit 7: Key Performance Indicators

Key Variable	FY14	FY15	FY16	FY17E	FY18E
EPC EBITDA Margin (%)	10.5	13.8	14.3	14.5	14.5
Wind PLF (%)	20	17	13	20	18

Source: Company, Centrum Research Estimate

Financials (Consolidated)

Exhibit 8: Income Statement

Y/E March (Rsmn)	FY14	FY15	FY16	FY17E	FY18E
REVENUES	7,085	7,939	10,972	14,434	18,516
COGS	4,260	5,022	7,816	9,749	13,358
% of revenues	60.1	63.3	71.2	67.5	72.1
Operating expenses	609	563	733	1,151	1,060
% of revenues	8.6	7.1	6.7	8.0	5.7
Employee Costs	290	274	302	347	433
% of revenues	4.1	3.4	2.7	2.4	2.3
EBITDA	1,925	2,080	2,122	3,187	3,664
EBITDA Margin (%)	27.6	26.5	19.4	22.2	19.9
Depreciation & Amortisation	667	603	495	522	523
EBIT	1,259	1,477	1,627	2,665	3,141
Interest expenses	454	431	361	415	360
Other Income	120	202	629	496	478
PBT (excluding excp. Items)	924	1,248	1,894	2,746	3,259
Provision for tax	38	185	487	549	652
Effective tax rate (%)	4	15	26	20	20
Net Profit	887	1,063	1,407	2,197	2,608
Less: Min. int.(Jhajjar+Simran)	12	13	(2)	(139)	(70)
Rep. PAT	875	1,050	1,406	2,057	2,537
Exceptional item	-	-	254	-	-
Adj. PAT after excp.	887	1,063	1,152	2,057	2,537

Source: Company, Centrum Research Estimates

Exhibit 9: Key Ratios

Y/E March	FY14	FY15	FY16	FY17E	FY18E
Growth Ratio (%)					
Revenues	1.2	12.1	38.2	31.5	28.3
EBITDA	(17.9)	8.0	2.0	50.2	15.0
Adj. Profit	(27.6)	19.9	8.4	78.6	23.3
Profitability Ratio (%)					
EBITDA Margin	27.6	26.5	19.4	22.2	19.9
PBIT Margin	18.0	18.8	14.9	18.6	17.1
PBT Margin	13.3	15.9	15.0	19.2	17.7
PAT Margin	12.7	13.5	10.6	14.4	13.8
Return Ratio (%)					
ROE	11.0	12.1	11.9	18.8	20.0
ROCE	8.3	8.5	7.6	13.0	14.0
ROIC	9.8	9.5	9.2	19.4	20.1
Turnover Ratio (days)					
Inventory period	6.2	2.9	12.7	7.3	7.3
Debtors period	107.8	160.3	166.0	140.4	140.1
Creditors period	55.8	63.5	96.2	94.9	94.9
Net working capital (ex.cash)	82.2	146.9	146.1	103.0	103.7
Solvency Ratio (x)					
Debt-equity	0.7	0.6	0.5	0.5	0.4
Net debt-equity	0.4	0.4	0.2	0.0	(0.0)
Current Ratio	2.1	2.9	2.7	2.4	2.2
Interest coverage	3.0	3.9	6.2	7.6	10.1
Dividend					
Dividend per share	3.0	4.0	5.0	7.0	9.0
Dividend payout ratio (%)	19.3	21.8	24.8	19.4	20.2
Dividend yield (%)	0.4	0.6	0.7	1.0	1.3
Per share (Rs)					
Basic EPS	15.5	18.6	20.2	36.0	44.4
Fully diluted EPS - Adjusted	15.5	18.6	20.2	36.0	44.4
Fully diluted EPS - Reported	15.3	18.4	24.6	36.0	44.4
CEPS	27.0	29.0	28.8	45.2	53.6
Book value	146.6	160.2	177.7	205.3	239.0
Valuation (x)					
P/E - Adjusted	44.0	36.7	33.8	18.9	15.4
P/BV	4.7	4.3	3.8	3.3	2.9
EV/EBITDA	22.2	20.7	19.5	12.3	10.5
EV/Sales	6.1	5.5	3.8	2.7	2.1
Mcap/Sales	5.6	5.0	3.6	2.7	2.1

Source: Company, Centrum Research Estimates

Exhibit 10: Balance Sheet

Y/E March (Rsmn)	FY14	FY15	FY16	FY17E	FY18E
Equity Share Capital	114	114	114	114	114
Share Ap. Money Pend. Allot.	-	-	-	-	-
Reserves	8,257	9,033	10,031	11,609	13,529
Shareholders' fund	8,371	9,147	10,145	11,723	13,644
Debt	6,077	5,649	5,122	5,710	4,857
Deferred Tax/non current Liability	202	206	8	-	-
Total Capital Employed	14,650	15,003	15,275	17,433	18,501
Gross fixed assets	13,404	13,492	11,106	11,406	11,706
Accumulated depreciation	(2,711)	(3,283)	(2,861)	(3,382)	(3,906)
CWIP	36	38	-	-	-
Net Fixed Assets	10,729	10,247	8,246	8,024	7,800
Investments	1,870	1,347	1,547	3,662	4,198
Inventories	118	63	379	286	368
Sundry Debtors	2,060	3,449	4,963	5,510	7,067
Cash & bank balances	481	247	1,116	1,707	1,271
Loans and advances	1,240	1,461	2,286	2,398	3,133
Other current assets	-	-	-	-	-
Total current assets	3,899	5,220	8,744	9,901	11,840
Creditors	1,067	1,367	2,875	3,724	4,786
Other Current liabilities & prov.	782	445	387	430	552
Net current assets	2,051	3,408	5,482	5,747	6,502
Deferred Tax Asset/Others	-	-	-	-	-
Total Assets	14,650	15,003	15,275	17,433	18,501

Source: Company, Centrum Research Estimates

Exhibit 11: Cash Flow

Y/E March (Rsmn)	FY14	FY15	FY16	FY17E	FY18E
PBT	924	1,248	1,640	2,746	3,259
Total tax paid	(48)	(172)	(497)	(569)	(652)
Depreciation	667	603	495	522	523
Chg in debtors	1,000	(1,389)	(1,513)	(547)	(1,557)
Chg in inventory	(102)	56	(317)	93	(82)
Chg in loans & advances	217	(221)	(826)	(112)	(736)
Change in other current assets	-	-	-	-	-
Chg in creditors	(5)	301	1,508	849	1,061
Chg in other current liabilities	(332)	(430)	(84)	224	122
Change in other non-current liabilities	1	5	6	(31)	-
Net chg in working capital	780	(1,679)	(1,226)	476	(1,191)
CF from op. activities (a)	2,322	1	412	3,175	1,940
Capital expenditure	(359)	(91)	2,424	(300)	(300)
Chg in investments	(1,224)	522	(199)	(2,115)	(536)
CF from invest. activities (b)	(1,583)	432	2,225	(2,415)	(836)
Debt raised/(repaid)	(600)	(427)	(527)	588	(853)
Dividend (incl. tax)	(370)	(200)	(312)	(617)	(617)
Others	(7)	(39)	(929)	(139)	(71)
CF from fin. activities (c)	(977)	(666)	(1,768)	(168)	(1,540)
Net chg in cash (a+b+c)	(238)	(234)	868	591	(436)

Source: Company, Centrum Research Estimates

Appendix

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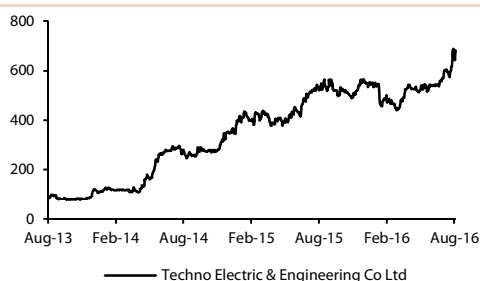
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Techno Electric price chart



Source: Bloomberg, Centrum Research

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