

Awaiting order intake, downgrade to Hold

Due to the recent uptick in the stock (since our last report dated 24/03/17), we have downgraded our rating on Techno Electric (TEEC) to Hold and revised our TP to Rs409 (earlier TP of Rs410). The company posted steady performance for 4QFY17 aided by steady EPC execution, a wider PBIT margin of 13.8%, and strong performance from the wind segment. In our view, order inflow has been sluggish over last few quarters and conversion of bid pipeline of Rs30bn plus would remain a key catalyst for growth in the EPC segment. The company's wind segment reported a strong performance during FY17 with average PLF of 23% vs 14% in FY16 and higher realisation on the back of favourable HC verdict and an average tariff hike of 15-20%. Although, the EPC business model is unparalleled and our inference of average RoCE of 76% on EPC segment for the forecast period stands moderated, positives such as the debt-free EPC business, AFCF yield of 4.2% in FY19E, and low D:E of 0.2x in FY19E, look factored-in and hence the downgrade to Hold.

- EPC business – Sturdy execution:** TEEC reported a healthy revenue execution at Rs3,572mn in 4QFY17 (a growth of 11% YoY and 9.6% QoQ) resulting in PBIT of Rs494mn (1.2%YoY). PBIT margins declined 133bps YoY to 13.8% in 4QFY17 on the back of higher staff cost and an increase in other expenses. The order intake for the quarter stood at Rs5.3bn resulting in an order book of Rs25.5bn. Further the company is the lowest bidder in projects worth Rs4-5bn and has a strong order bid pipeline of Rs30bn; hence, any traction in order book will provide firm revenue and margin visibility beyond FY19E. 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 – continues to remain strong:** The wind business remained strong during the quarter with PBIT of Rs174mn (vs loss of Rs108mn in 4QFY16). The average PLF for FY17 stood at 23% vs 14% in FY16 with blended realisation at Rs5.6/unit. The realisation was higher mainly on the back of a) a favourable HC order resulting in 15-20% tariff hike by Tamil Nadu Electricity Regulatory Commission and b) additional tariff arrears plus surcharge revenue of Rs0.5bn, which has been factored-in. Further, as a part of its strategy, the company was able to monetise 33MW of wind assets for a profit of Rs233mn during the quarter. We believe the company will plan to exit the wind business possibly in FY18E/FY19E and currently at 1x EV, TEEC has the potential to realise about Rs6.7bn, which we have not factored in.
- Outlook:** Given the current scenario, management believes the ordering from Powergrid would be subdued for FY18E and expects incremental business to flow from state electricity boards such as Jharkhand, U.P, Rajasthan, Tamil Nadu, etc. The management has guided for 15-20% growth in EPC revenues for FY18E on the back of order book of Rs25.5bn (excluding L1 of Rs4-5bn). The management is looking to consolidate its presence with a focus on order execution. We believe the management's philosophy of attaching significance to margins, leverage and cash flow will remain intact.
- Valuation and risks:** Our TP of Rs409 is based on SoTP of Mar'19E, derived by assigning PE(x) of 22x its EPC earnings, P/B(x) to wind assets, cash and investments and DCFE-based valuation to BOOT/BOOM projects. TEEC's superior earnings, lower PEG(x) and AFCF yield of 4.2% cap the downside. Key downside risks are (1) a slowdown in the EPC order book and (2) lower PLF and earnings in wind assets.

Y/E Mar – Consol. (Rsmn)	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Net sales	3,619	3,260	11.0	3,563	1.6
EBITDA	544	518	5.0	754	(27.8)
RPAT	333	81	309.8	409	(18.7)
Operating Metrics					
EPC – PBIT	494	488	1.2	491	0.5
Wind PBIT	174	(108)	NM	130	33.9

Source: Company, Centrum Research

Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	APAT	YoY (%)	Adj.DEPSRs.	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY15	7,939	12.1	2,114	26.6	1,051	20.1	9.3	12.0	9.8	32.6	10.3
FY16	10,972	38.2	2,203	20.1	1,406	33.8	12.5	14.6	11.5	19.7	14.1
FY17P	13,567	23.7	3,125	23.0	1,927	37.1	17.1	18.2	14.2	18.1	11.5
FY18E	15,185	11.9	3,113	20.5	2,119	9.9	18.8	18.4	14.4	21.2	14.6
FY19E	17,990	18.5	3,544	19.7	2,471	16.6	21.9	19.2	15.7	18.2	12.5

Source: Company, Centrum Research Estimates

Target Price	Rs409	Key Data	
CMP*	Rs396	Bloomberg Code	TEEC IN
Upside	3%	Curr Shares O/S (mn)	114.2
Previous Target	Rs410	Diluted Shares O/S(mn)	114.2
Previous Rating	Buy	Mkt Cap (Rsbn/USDmn)	45.4/701.9
Price Performance (%)*		52 Wk H / L (Rs)	415.2/242.5
	1M 6M 1Yr	5 Year H / L (Rs)	415.2/34.5
TEEC IN	1.5 30.3 46.1	Daily Vol. (3M NSE Avg.)	101643
NIFTY	3.2 18.0 17.8		

*as on 29 May 2017; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Mar-17	Dec-16	Sep-16	Jun-16
Promoter	58.0	58.0	58.0	58.0
FII's	5.3	8.2	9.2	7.9
Dom. Inst.	17.9	15.3	16.5	17.7
Public & Others	18.8	16.8	16.3	16.4

Source: BSE, *as on 29 May 2017

Earning Revision

Particulars (Rsmn)	FY18E			FY19E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	15,185	16,119	(5.8)	17,990	18,093	(0.6)
EBITDA	3,113	3,148	(1.1)	3,544	3,350	5.8
APAT	2,119	2,401	(11.7)	2,471	2,680	(7.8)

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rsmn)	FY18E			FY19E		
	Centrum	BBG	Chg (%)	Centrum	BBG	Chg (%)
Revenue	15,185	16,346	(7.1)	17,990	19,157	(6.1)
EBITDA	3,113	3,482	(10.6)	3,544	3,855	(8.1)
APAT	2,119	2,439	(13.1)	2,471	2,883	(14.3)

Bloomberg Consensus				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
14	0	2	425	409	(3.7)

*as on 29 May 2017; Source: Bloomberg, Centrum Research Estimates

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Valuation and View

We have arrived at a revised TP of Rs409 using SoTP valuation based on Mar'19E. We have valued the EPC business by assigning a fair PE(x), and valued the wind business at 1x equity, cash and liquid investments at 1x book value, and BOOT & BOOM projects at DCFE.

We have revised our earnings to primarily factor in higher PLF of 20%/20% in FY18E/FY19E as against management guidance of wind PLF of 26% in FY18E and also built-in the favourable regulatory order resulting into average realisation of Rs5/unit. However, we have moderated the EPC revenue forecasted for FY18E and FY19E on the back of its flattish order book of Rs25.5bn.

Exhibit 1: SoTP Valuation

Methodology	Fair Multiple assigned to Mar-19E	Fair price (Rs)	Valuation Base
PE (x) to EPC's EPS	22	361	Applied a PE(x) of 22x based on average RoE of 28% over FY17-19E, CoE of 10.6% and terminal growth rate of 7%
P/B(x) to equity invested in wind assets	1	23	P/B of 1x equity
DCF at 13% to Jhajjar KT (49% share)		5.4	Risk-free rate at 7.3%, beta at 1, zero terminal value in FY37E
DCF at 13% to Patran (49% share)		1.9	Risk-free rate at 7.3%, beta at 1, zero terminal value in FY51E
Cash and Investments		19	Quassi cash and liquid investments considered
Fair price (rounded-off)		409	

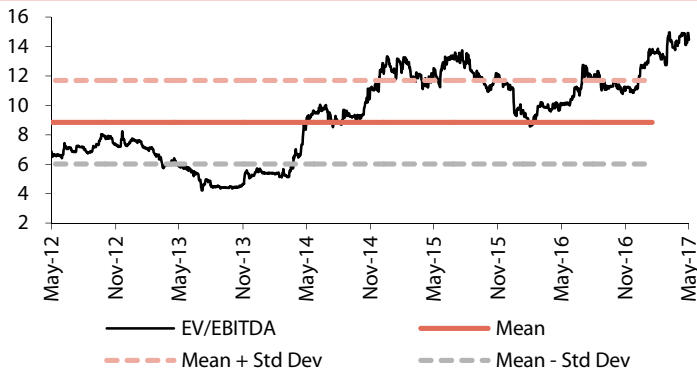
Source: Company, Bloomberg, Centrum Research Estimates

Exhibit 2: Sensitivity Analysis to FY18E

Sensitivity to key variables	(%)Change	% impact on EBITDA	% impact on EPS
Increase in EPC revenue	5	4.6	4.6
Increase in wind revenue	5	0.4	0.5

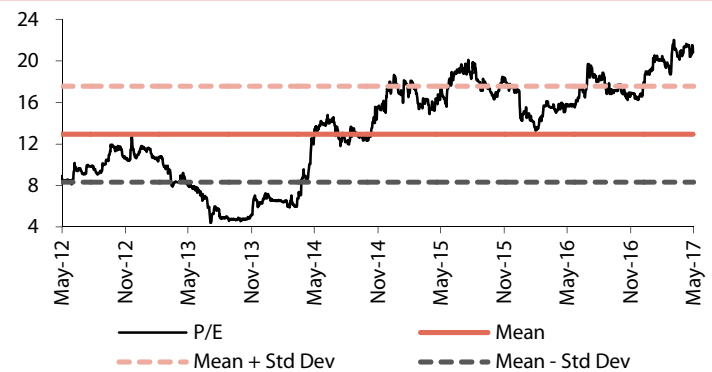
Source: Company, Centrum Research Estimates

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 FY17-FY19E (%)			EBITDA Margin (%)			P/E (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Techno Electric*	45,444	9.9	4.3	8.6	23.0	20.5	19.7	18.1	21.2	18.2	11.5	14.6	12.5	18.2	18.4	19.2	1.1	1.1	1.4
KEC International	65,390	14.6	16.0	23.5	9.3	9.4	9.5	12.5	18.2	14.7	6.9	9.0	7.5	18.3	19.4	20.3	1.1	0.7	0.8
Kalpataru Power Trans	52,368	13.6	14.7	18.3	10.7	10.8	10.9	14.7	16.6	14.1	8.1	9.3	11.9	10.8	11.7	12.4	1.0	0.8	0.9
BHEL	387,822	11.4	57.3	52.5	3.6	5.8	7.2	37.6	24.3	19.0	21.3	13.0	11.3	2.6	4.6	6.0	0.7	1.0	1.4
Larsen & Toubro	1,668,316	13.6	17.6	19.7	10.9	11.4	11.6	25.4	26.0	22.2	19.0	18.7	14.8	11.4	12.5	13.5	1.3	1.2	1.5
GE T&D India Ltd	92,164	15.5	69.5	65.9	4.2	8.2	8.9	100.7	47.4	35.9	NA	NA	20.7	7.5	15.4	20.1	0.5	0.7	1.0
Siemens	494,152	18.8	24.5	26.7	10.5	11.0	11.5	54.7	49.0	39.2	31.8	29.7	24.0	12.1	13.8	15.8	0.7	0.8	1.0
Reliance Infra	133,730	21.2	32.3	(10.4)	19.1	22.8	22.8	6.6	8.1	7.7	9.7	6.1	5.8	7.0	6.2	6.8	2.0	2.8	2.0
ABB India	314,355	14.8	19.4	23.1	9.3	9.7	10.1	49.5	49.3	41.7	25.7	26.8	NA	14.6	16.2	16.9	0.5	0.5	0.5

Source: Bloomberg, *Centrum Research Estimates; NA: Details are not available, , DNA: Details not available

Quarterly financials, operating metrics and Key performance indicators

Exhibit 6: Quarterly Financials - Consolidated

Particulars (Rsmn)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Net Sales	2,015	2,531	3,167	3,260	2,709	3,676	3,563	3,619
Raw Materials	1,335	1,486	2,537	2,458	1,751	2,269	2,560	2,745
Employee Costs	69	74	82	73	72	100	76	97
Other Expenditure	161	140	144	211	174	192	173	233
EBITDA	450	831	403	518	712	1,115	754	544
Depreciation	119	118	117	140	133	133	133	110
Interest	89	100	121	109	97	121	80	76
Other Income	46	60	174	95	82	56	49	304
PBT	288	672	339	365	565	918	590	662
Tax	158	250	45	268	84	200	185	367
Tax rate (%)	54.8	37.1	13.3	73.5	15.0	21.8	31.4	55.4
Reported PAT before minority interest	130	423	294	97	480	718	405	295
Add extraordinary items	247	(1)	(13)	0	0	(2)	0	0
minority Interest/profits from associates	0	23	0	(16)	0	(12)	4	37
Reported PAT after minority interest	377	445	281	81	480	704	409	333
YoY Growth (%)								
Revenue	10.0	21.6	74.6	47.4	34.5	45.3	12.5	11.0
EBITDA	(14.9)	8.4	1.6	33.1	58.2	34.2	86.9	5.0
PAT	61.8	(4.8)	127.9	(64.2)	27.2	58.3	45.7	309.8
Margin (%)								
EBITDA	22.5	33.4	12.7	15.9	26.6	30.8	21.3	15.3
PAT	18.7	17.6	8.9	2.5	17.7	19.2	11.5	9.2
Segment Revenue								
EPC	1,779	2,017	3,128	3,218	2,311	2,968	3,258	3,572
Wind	235	514	39	41	399	708	304	47
Corporate	46	63	174	261	82	56	49	70
Segment PBIT								
EPC	229	322	360	488	335	453	491	494
Wind	95	385	(87)	(108)	239	534	130	174
Corporate	46	63	174	94	82	56	49	70
Segment PBIT Margins (%)								
EPC	12.9	15.9	11.5	15.2	14.5	15.3	15.1	13.8
Wind	40.3	74.9	(226.0)	(261.8)	60.0	75.4	42.8	368.3
Corporate	100.0	100.0	100.0	36.0	100.0	100.0	99.8	100.0

Source: Company, Centrum Research

Exhibit 7: Key Performance Indicators

Key Variable	FY15	FY16	FY17E	FY18E	FY19E
EPC EBITDA Margin (%)	13.8	14.1	14.9	15.0	15.0
Wind PLF (%)	17.6	14.0	23.0	20.0	20.0

Source: Company, Centrum Research Estimate

Financials (Consolidated)

Exhibit 8: Income Statement

Y/E March (Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Revenues	7,939	10,972	13,567	15,185	17,990
Materials cost	5,022	7,816	9,325	10,781	12,953
% of revenues	63.3	71.2	68.7	71.0	72.0
Employee cost	274	302	346	410	450
% of revenues	3.4	2.7	2.5	2.7	2.5
Others	529	652	772	881	1,043
% of revenues	6.7	5.9	5.7	5.8	5.8
EBITDA	2,114	2,203	3,125	3,113	3,544
EBITDA margin (%)	26.6	20.1	23.0	20.5	19.7
Depreciation & Amortisation	603	495	508	528	533
EBIT	1,511	1,709	2,617	2,585	3,011
Interest expenses	465	443	373	307	199
PBT from operations	1,046	1,266	2,244	2,278	2,813
Other income	202	629	492	425	468
Exceptional items	-	-	-	-	-
PBT	1,248	1,894	2,735	2,703	3,280
Taxes	185	487	837	676	820
PAT	1,063	1,407	1,899	2,027	2,460
Minority/Associates	12	-	-	92	11
Extraordinary Items	-	(2)	29	-	-
Reported PAT	1,051	1,406	1,927	2,119	2,471
Adjusted PAT	1,051	1,406	1,927	2,119	2,471

Source: Company, Centrum Research Estimates

Exhibit 9: Key Ratios

Y/E March	FY15	FY16	FY17P	FY18E	FY19E
Growth Ratios (%)					
Revenue	12.1	38.2	23.7	11.9	18.5
EBITDA	9.8	4.2	41.8	(0.4)	13.8
Adj. PAT	20.1	33.8	37.1	9.9	16.6
Margin Ratios (%)					
EBITDA Margin	26.6	20.1	23.0	20.5	19.7
PBIT from operations	13.2	11.5	16.5	15.0	15.6
Adjusted PAT	12.9	12.1	13.7	13.6	13.4
Return Ratios (%)					
ROE	12.0	14.6	18.2	18.4	19.2
ROCE	9.8	11.5	14.2	14.4	15.7
ROIC	9.7	9.4	13.8	14.5	16.1
Turnover Ratio (days)					
Gross block turnover ratio (x)	0.6	0.9	1.3	1.5	1.7
Debtors	159	165	151	155	155
Inventory	3	13	0	1	1
Creditors	63	96	92	90	90
Cash conversion cycle	99	82	59	66	66
Solvency Ratio (x)					
Net Debt-equity	0.5	0.3	0.1	0.0	(0.0)
Debt-equity	0.6	0.5	0.3	0.2	0.2
Interest coverage	3.2	3.9	7.0	8.4	15.2
Gross Debt/EBITDA	2.7	2.3	0.9	0.9	0.7
Current Ratio	2.9	2.7	2.0	2.1	2.2
Per share ratios (Rs)					
Adjusted EPS	9.3	12.5	17.1	18.8	21.9
BVPS (Adj.)	81.2	90.0	98.2	106.4	121.8
CEPS (Adj.)	14.7	16.9	21.6	23.5	26.7
DPS (Adj.)	2.1	2.5	3.5	4.5	5.5
Dividend payout (%)	26.0	24.4	24.9	28.7	30.1
Valuation (x)					
P/E (adjusted)	32.6	19.7	18.1	21.2	18.2
P/BV	3.7	2.7	3.1	3.7	3.3
EV/EBITDA	10.3	14.1	11.5	14.6	12.5
Dividend yield %	1.3	1.0	1.1	1.1	1.4
5 Yr Avg AOCF/EV yield %	4.2	2.1	3.5	3.4	3.6

Source: Company, Centrum Research Estimates

Exhibit 10: Balance Sheet

Y/E March (Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Equity Share Capital	114	114	228	225*	225*
Reserves & surplus	9,033	10,031	10,842	11,767	13,495
Shareholders' fund	9,147	10,145	11,070	11,993	13,720
Total Debt	5,649	5,122	2,938	2,925	2,319
Def tax liab. (net)	7	8	1,161	1,161	1,161
Minority interest	199	-	-	-	-
Total Liabilities	15,003	15,275	15,169	16,079	17,200
Gross Block	13,492	11,106	9,856	10,356	10,856
Less: Acc. Depreciation	(3,283)	(2,861)	(3,368)	(3,897)	(4,429)
Net Block	10,209	8,246	6,487	6,459	6,426
Capital WIP	38	-	-	-	-
Net Fixed Assets	10,247	8,246	6,487	6,459	6,426
Investments	1,347	1,547	4,660	4,760	4,860
Inventories	63	379	2	42	49
Sundry debtors	3,449	4,963	5,596	6,448	7,639
Cash	247	1,116	1,032	1,267	1,755
Loans & Advances	1,040	1,105	238	253	270
Other assets	421	1,181	1,048	1,111	1,188
Total Current Asset	5,220	8,744	7,916	9,120	10,902
Trade payables	1,367	2,875	3,407	3,744	4,436
Other current Liabilities	290	206	382	404	433
Provisions	155	181	106	112	120
Net Current Assets	3,408	5,482	4,022	4,859	5,913
Total Assets	15,003	15,275	15,169	16,079	17,200

Source: Company, Centrum Research Estimates, Adjusted for Buyback

Exhibit 11: Cash Flow

Y/E March (Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Operating profit bef working capital changes	2,027	1,908	3,617	3,538	4,012
Changes in working capital	(1,588)	(1,583)	540	(1,278)	(1,386)
Cash flow from operations	438	325	4,156	2,260	2,625
Adj. OCF (OCF - Interest)	(5)	(134)	3,783	1,953	2,427
Net Capex	(7)	1,920	1,252	(500)	(500)
Adj. FCF	(12)	1,786	5,035	1,453	1,927
Cash flow from investments	658	1,995	(1,861)	(600)	(600)
Cash flow from financing	(1,330)	(1,452)	(2,379)	(1,425)	(1,537)
Net change in cash	(234)	869	(84)	235	488

Source: Company, Centrum Research Estimates

Appendix

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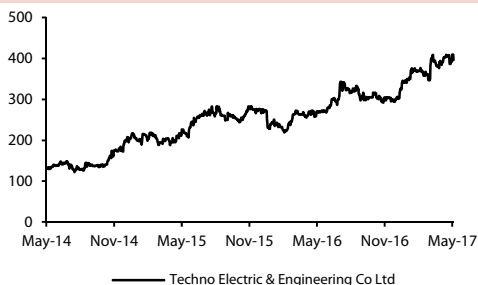
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Techno Electric price chart



Source: Bloomberg, Centrum Research

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