

Institutional Equity Research

Techno Electric & Engg.

Capital Goods | India

2QFY18 Result Update | November 17, 2017

CMP* (Rs)	383
Upside/ (Downside) (%)	12.5
Bloomberg Ticker	TEEC IN
Market Cap. (Rs bn)	43.3
Free Float (%)	41.3
Shares O/S (mn)	114

BUY 

Target Price: Rs431

GST Transition Drags Quarterly Performance; Maintain BUY

Techno Electric & Engineering (TEEC) has reported a weak performance in 2QFY18 with its PAT declining by 12.9% YoY to Rs690mn. Led by 32.1% YoY and 25.4% YoY decline in EPC and Wind business, respectively (led by GST impact to the extent of Rs6bn-7bn), its consolidated revenue declined by 31% YoY to Rs2.5bn. However, we continue to remain positive on TEEC on the back of presence across entire power sector value chain and robust revenue visibility backed by strong order book and lower execution risks. **Considering strong order book, likely ramp-up in T&D capex, robust FCF generation and high EBITDA margins, we maintain our BUY recommendation on the stock with an SOTP-based unrevised Target Price of Rs431.**

Consolidated Revenue Dips on Weak EPC & Wind Biz

TEEC's consolidated revenue declined by 31% YoY to Rs2.5bn on the back of 32% decline in EPC business and 25% decline in Energy business. EPC revenue fell by 32.1% YoY to Rs20.1bn owing to GST transition (which saw front loaded execution in 1QFY18) and deferral (Rs0.6-0.7bn) from 2QFY18 to 2HFY18. Revenue from Wind business also fell by 25.4% YoY to Rs5.3bn due to lower wind capacity (due to sell of its assets) and heavy rains in Tamil Nadu.

Overall Margin Remained Flat; Profit De-growth Capped

Despite 31.2% YoY decline in EBITDA to Rs768mn on lower revenue, its overall margin remained flat (-13bps). EPC business saw 200bps YoY decline in EBITDA margins due to delays/deferrals in execution, while wind business witnessed 50bps YoY decline in EBITDA margins. EBITDA from Corporate segment increased to Rs108.9mn in 2QFY18 vs. Rs44mn in 2QFY17. Notably, decline in consolidated PAT (-14.9% YoY) was lower vs. decline in consolidated revenue due to: (1) sharp 93% YoY rise in other income; (2) 52.3% YoY decline in interest cost; and (3) lowered tax outgo at 15% in 2QFY18 vs. 21.9% in 2QFY17.

Current Order Book at Rs23.5bn; Eyes on FGD Segment

Fresh order intake declined to Rs1bn in 2QFY18 (vs. Rs5.5bn in 1QFY18) and Rs6.5bn in 1HFY18 due to delayed order finalisation during the initial period of GST roll-out and lower PGCIL ordering. Thus, the backlog declined by 6% to Rs23.5bn. TEEC expects the execution to pick-up pace from 4QFY18 onwards, as the clients are still assessing the impact of GST. Expecting robust ordering from FGD segment, TEEC is striving to get orders, which are expected to be tendered by thermal power companies. Continuing to remain positive on EPC segment, TEEC has maintained its FY18 guidance with EPC revenue growth of 15-20% and margin at 15-16%.

Outlook & Valuation

We continue to believe that likely ramp-up in overall investment in T&D space augurs well for TEEC's EPC business, while prudent capital allocation with synergy from project business will boost its profitability, going forward. **Valuing EPC business at 18x FY19E EPS, Wind business at 0.8x equity book value, BOOT projects at 1.3-1.5x equity book value and cash at 1.0x book value, we maintain our BUY recommendation on the stock with a Target Price of Rs431.**

Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Net sales	10,972	13,567	17,579	20,944
PAT	1,406	1,897	2,356	2,851
EPS (Rs)	12.3	16.6	20.6	25.0
PE (x)	31.1	23.1	18.6	15.3
EV/EBITDA (x)	19.9	12.8	10.7	8.8
Book value (Rs/share)	88.8	97.0	115.6	138.5
P/BV (x)	4.3	4.0	3.3	2.8
ROCE	17.7	21.3	20.4	21.0
RONW	13.9	17.1	17.8	18.0

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	9.7	2.9	33.3
Relative to Nifty	9.7	(1.3)	5.6

Shareholding Pattern (%)	Jun'17	Sep'17
Promoter	58.8	58.8
Public	41.3	41.3

1 Year Stock Price Performance



Note: * CMP as on Nov.16, 2017

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Risks to the View

- ▶ Significant delay in project execution.
- ▶ Increased working capital requirement in the event of delayed receivables.

Exhibit 1: Quarterly Performance

(Rs mn)	2QFY18	2QFY17	YoY %	1QFY18	QoQ %	6MFY18	6MFY17	YoY%
Net Sales	2,542	3,676	(30.9)	4,123	(38.3)	6,665	6,385	4.4
Operating Costs	1,774	2,561	(30.7)	3,107	(42.9)	4,881	4,558	7.1
EBIDTA	768	1,115	(31.2)	1,016	(24.4)	1,784	1,827	(2.4)
EBIDTA Margin (%)	30.2	30.3		24.6		26.8	28.6	
Other Income	109	56	92.9	114	(4.3)	223	139	60.6
Interest	60	126	(52.3)	86	(29.9)	146	218	(33.2)
Depreciation	106	133	(20.1)	106	0.3	212	265	(20.1)
Profit Before Tax	711	913	(22.2)	939	(24.3)	1,649	1,482	11.3
Tax	106	200	(46.8)	245	(56.6)	352	284	23.7
Tax Rate (%)	15.0	21.9		26.1		21.3	19.2	0.1
Share of profit/Loss associates	(3.6)	(12.0)		(3.1)		(6.7)	(12.2)	
Extraordinary		4.5		2		0	0.032	
Rep PAT	601	706	(14.9)	690	(13.0)	1,291	1,186	8.8

Source: Company, RSec Research

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Profit & Loss Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Net sales	10,972	13,567	17,579	20,944
% yoy change	38.2	23.7	29.6	19.1
RM cost	(317)	377	(264)	(314)
Employee expenses	302	346	492	586
Other expenses	8,768	9,719	13,729	16,378
Total operating expenditure	8,754	10,442	13,958	16,650
EBITDA	2,218	3,125	3,621	4,293
EBITDA margin (%)	20.2	23.0	20.6	20.5
Depreciation	495	508	535	550
EBIT	1,724	2,617	3,086	3,743
Other income	629	492	282	245
Interest costs	458	373	224	183
PBT	1,894	2,735	3,144	3,805
Taxes	487	837	786	951
Minority interest	1.6	2.00	2.50	3.00
PAT	1,406	1,897	2,356	2,851
% yoy change	33.8	34.9	24.2	21.0

Balance Sheet

Y/E March (Rs mn)	FY16	FY17E	FY18E	FY19E
Share capital	114	228	228	228
Reserves & Surplus	10,031	10,842	12,969	15,591
Total shareholder's funds	10,145	11,070	13,197	15,820
Secured loans	3,068	2,099	1,868	1,668
Total borrowings	3,068	2,099	1,868	1,668
Other long term liabilities	83	195	225	243
Deferred tax liability	8	1,222	1,222	1,222
Capital employed	13,304	14,587	16,512	18,953
Gross Block	11,106	9,856	10,756	12,356
Accumulated Depreciation	2,861	3,368	3,903	4,453
Net Block	8,246	6,487	6,852	7,902
Capital Work in Progress	-	-	110	75
Investments (non current)	623	789	789	789
Current investment	924	3,871	3,871	3,871
Inventories	379	2	400	375
Sundry Debtors	4,963	5,596	6,761	7,757
Cash and Bank	1,116	1,032	2,359	3,131
Loans and Advances	1,049	805	1,231	1,466
Other Current Assets	1,237	481	881	1,231
Total Current Assets	9,668	11,787	15,503	17,830
Current liabilities	5,051	4,432	6,693	7,590
Provision	181	45	49	54
Total current liabilities	5,232	4,476	6,742	7,644
Capital Deployed	13,304	14,587	16,512	18,953

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Cash Flow Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
PBT	1,894	2,735	3,144	3,805
Depreciation	495	508	535	550
Interest provided	458	373	224	183
Operating CF before WC requirement	2,847	3,617	3,903	4,538
Change in working capital	2,006	2,606	96	639
Tax Paid	487	837	786	951
Operating cash flow	354	174	3,021	2,948
FCF	2,778	1,424	2,011	1,383
Change in Fixed Assets	(2,424)	(1,251)	(1,010)	(1,565)
Investments	243	166	-	-
Investing cash flow	2,181	1,084	(1,010)	(1,565)
Issue/repayment of debt	(899)	(969)	(231)	(200)
Dividends paid	309	-	228	228
Interest paid	(458)	(373)	(224)	(183)
Financing cash flow	(1,666)	(1,342)	(684)	(612)
Opening cash balance	247	1,116	1,032	2,359
Net change in cash	869	(84)	1,327	771
Closing cash balance	1,116	1,032	2,359	3,131

Key Ratios

Y/E March (%)	FY16	FY17	FY18E	FY19E
EBITDA margins	20.2	23.0	20.6	20.5
PBT margins	17.3	20.2	17.9	18.2
PAT margins	12.8	14.0	13.4	13.6
ROCE	17.7	21.3	20.4	21.0
RONW	13.9	17.1	17.8	18.0
Debt/Equity Ratio (x)	0.3	0.2	0.1	0.1
PE (x)	31.1	23.1	18.6	15.3
PB (x)	4.3	4.0	3.3	2.8
EV/EBITDA (x)	19.9	12.8	10.7	8.8

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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