

Techno Electric & Engineering

BUY
INDUSTRY CAPITAL GOODS
CMP (as on 21 Nov 2016) Rs 295

Target Price Rs 371

Nifty 7,929

Sensex 25,765

KEY STOCK DATA

Bloomberg /Reuters TEEC IN

No. of Shares (mn) 114

MCap (Rs bn) / (\$ mn) 34 / 495

6m avg traded value (Rs mn) 22

STOCK PERFORMANCE (%)
52 Week high / low Rs 362 / 209

	3M	6M	12M
Absolute (%)	(9.2)	14.4	8.8
Relative (%)	(0.9)	12.6	9.2

SHAREHOLDING PATTERN (%)

Promoters 57.98

FIs & Local MFs 16.68

FIIs 9.18

Public & Others 16.16

Source : BSE

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Growth momentum continues

Techno Electric's (TEEC) 2QFY17 results in line led by robust performance across both segments. EPC revenue grew 47% YoY (Rs 2.97bn) and the mgmt reiterated its 30% YoY growth guidance for FY17E. With improved grid availability, Wind revenues also reported strong growth of 38% YoY for the quarter. Order book at Rs 26bn declined 17% QoQ. With large order finalizations expected in 2HFY17E, the mgmt expects order inflows of Rs 15-20bn in FY17E.

While PGCIL's capex is expected to be largely flat at Rs 250-280bn per annum, increasing proportion of substation orders augurs well for TEEC. Investments in Statcom projects (more to be driven by states), led by higher renewable capacity addition also presents strong growth opportunity for TEEC. Improved grid availability in Tamil Nadu have substantially improved wind assets earning profile and also its valuation. On the back of strong earnings momentum (21% CAGR over FY16-19E) and comfortable valuations (post recent correction), we

Financial Summary - Consolidated

(Rs mn)	2QFY17	2QFY16	YoY (%)	1QFY17	QoQ (%)	FY15	FY16	FY17E	FY18E	FY19E
Net Sales	3,676	2,531	45	2,709	36	7,939	10,972	14,222	17,048	19,574
EBITDA	1,115	831	34	712	57	2,080	2,213	2,952	3,300	3,614
APAT	713	425	68	485	47	1,051	1,228	1,820	2,200	2,505
Diluted EPS (Rs)	6.2	3.7	68	4.2	47	9.2	12.3	15.9	19.3	21.9
P/E (x)						32.0	23.9	18.5	15.3	13.4
EV / EBITDA (x)						18.3	16.6	11.9	10.4	9.1
RoE (%)						12.3	13.0	17.3	18.6	18.5

Source: Company, HDFC sec Inst Research

upgrade TEEC to BUY with a revised SOTP based TP of Rs 371/share (20x Sep-18E P/E for EPC business).

Highlights of the quarter

- Revenue for the quarter grew 45% YoY with growth across both segments. EPC margins were stable at 15.2% (-90bps YoY) was in line with our estimates. Importantly wind segment EBIT grew 39% YoY (Rs 534mn) led by 90% grid availability.
- The management stated that the ticket size of the projects have increased (Rs 250-500mn). It expects finalization of few large orders which should lead to improved orders inflows in 2HFY17E.
- The company expects to sell 45 MW of wind assets in FY17E. TEEC's continues to selectively focus on T&D BOOT projects. It has bid for another T&D BOT project (worth ~Rs 11bn) in JV with Kalpataru Power (bids to open in 4QFY17E).
- Near-term outlook:** We have a positive view given strong earnings momentum going ahead. Upgrade to BUY.

Revenue grew 45% YoY on back of strong growth in both EPC business (47% YoY) and Wind Energy (38% YoY)

Margin expansion ~50bps for Wind Energy coupled with lower tax (-20% YoY) boost PAT to Rs 706mn (59% YoY)

Quarterly Financials - Consolidated

(Rs mn)	2QFY17	2QFY16	YoY (%)	1QFY17	QoQ (%)
Net Sales	3,676	2,531	45	2,709	36
Material Expenses	2,269	1,486		1,751	
Employee Expenses	100	74		72	
Other Operating Expenses	192	140		174	
EBITDA	1,115	831	34	712	57
Interest Cost	126	98		92	
Depreciation	133	118		133	
Other Income	56	60		82	
PBT	913	674	35	569	60
Tax	200	250		84	
Adjusted PAT	713	425	68	485	47
E/o inc/(loss)	5	(4)		(4)	
Minority Interest	12	(23)		0	
Reported PAT	706	444	59	480	47

Source: Company, HDFC sec Inst Research

Margin Analysis - Consolidated

	2QFY17	2QFY16	YoY (%)	1QFY17	QoQ (%)
Material Expenses as % of Net Sales	61.7	58.7	299	64.6	-292
Employee Expenses as % of Net Sales	2.7	2.9	-20	2.7	6
Other Operating Expenses as % of Net Sales	5.2	5.5	-29	6.4	-122
EBITDA Margin (%)	30.3	32.8	-249	26.3	408
Net Profit Margin (%)	19.4	16.8	262	17.9	152
Tax Rate (%)	21.8	37.3	-1548	14.8	693

Source: Company, HDFC sec Inst Research

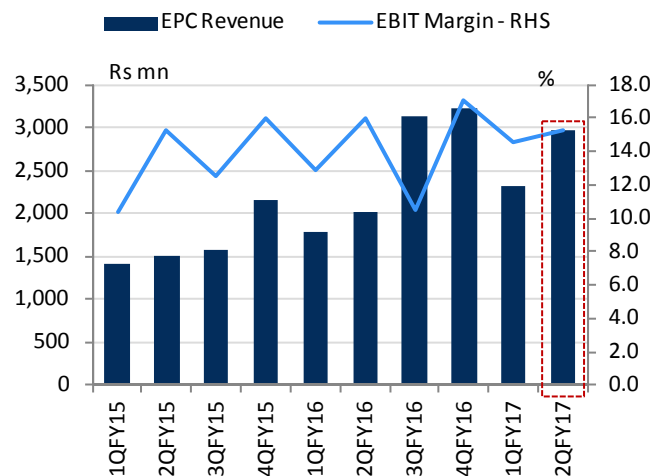
Wind segment EBIT grew 39% YoY (Rs 534mn) led by 90% grid availability compared to 70% availability in previous year

Selective and rational bidding drives superior than industry margins for TEEC

Segmental Quarterly Performance - Consolidated

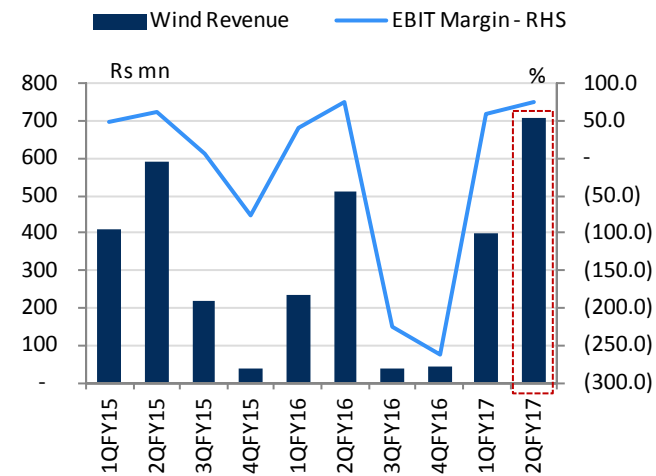
(Rs mn)	2QFY17	2QFY16	YoY (%)	1QFY17	QoQ (%)
Segmental Revenues					
EPC	2,968	2,017	47	2,311	28
Wind Energy	708	514	38	399	78
Corporate	56	60		82	
Total	3,733	2,591	44	2,792	34
Segmental EBIT					
EPC	452	325	39	335	35
Wind Energy	534	385	39	239	123
Corporate	44	63		82	
Total	1,030	773	33	657	57
Segmental EBIT Margins					
			YoY (bps)		QoQ (bps)
EPC	15.2	16.1	(87.7)	14.5	70.7
Wind Energy	75.4	74.9	52.5	60.0	1,543.1

Industry-leading Margins Recorded By EPC Biz



Source : Company, HDFC sec Inst Research

Wind Energy Records Strong Margins



Source : Company, HDFC sec Inst Research

We expect 20%/10% growth in order inflows for FY17E/FY18E led by boost from substation orders and Statcom projects

Management upgrades its guidance for Wind PAT to 15% (from earlier guidance of 11%) and re-iterates its EPC operating margin at 15%

Change In Estimates

	Previous estimates		Revised estimates		Change (%)	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Revenues (Rs mn)	14,297	17,205	14,222	17,048	-0.5%	-0.9%
EBITDA (Rs mn)	3,047	3,477	2,952	3,300	-3.1%	-5.1%
EBITDA margin (%)	21%	20%	21%	19%		
PAT (Rs mn)	1,783	2,159	1,820	2,200	2.0%	1.9%
Net margin (%)	12%	13%	13%	13%		
EPS (Rs)	15.6	18.9	15.9	19.3	2.0%	1.9%

Source: Company, HDFC sec Inst Research

Key Assumptions - Consolidated

(Rs mn)	FY17E	FY18E	FY19E
Order Inflow	19,071	20,978	23,076
YoY (%)	20.0	10.0	10.0
Revenue	14,222	17,048	19,574
EPC	13,000	15,875	18,401
Wind Energy	1,222	1,173	1,173
EBITDA	2,952	3,300	3,614
EBITDA Margins (%)	20.8	19.4	18.5
PAT	1,820	2,200	2,505
Net Margin (%)	12.8	12.9	12.8
Capex	250	250	250
Debt	3,998	3,077	2,304
NWC (Ex-cash) as % of sales	29.6	29.6	29.6

Source: Company, HDFC sec Inst Research

We assign multiple of 20x for EPC business on back of superior quality

SOTP Valuation

Business head	Parameter	Value (Rs mn)	Value (Rs/sh)
Standalone business		33,855	319
T&D EPC business	20x Sep-18E P/E	32,350	283
Wind projects capacity	FCFF	1,505	13
C&CE		2,558	22
Transmission projects		897	8
Jhajjar	FCFE	733	6
Patran	FCFE	164	1
Simran Wind	FCFF	4,987	44
Target price			371

Source: Company, HDFC sec Inst Research

Peer Valuation

Company	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
Larsen & Toubro	1,256	1348	NEU	1,461	52.1	60.4	70.3	25.9	22.3	19.2	12.3	11.8	10.7	11.4	12.2	13.0
Cummins India	211	763	BUY	940	27.1	27.0	29.4	28.1	28.3	26.0	27.3	26.2	23.8	24.8	22.6	22.5
Thermax	101	845	SELL	754	23.1	26.8	27.6	36.6	31.6	30.6	21.0	22.0	19.8	12.2	13.0	12.3
Voltas	98	296	BUY	351	10.8	12.4	14.5	27.4	23.8	20.4	19.3	17.0	14.0	15.9	16.2	16.8
Suzlon	84	14	BUY	24	-0.3	0.9	1.2	NA	16.0	11.6	13.7	9.0	8.0	NA	NA	NA
Carborundum Universal	47	250	BUY	391	7.6	10.3	13.0	33.0	24.4	19.2	14.9	12.9	10.4	12.6	15.3	17.0
Crompton Greaves	43	69	NEU	76	1.9	3.2	4.3	35.9	21.6	16.2	13.0	8.7	7.6	2.7	4.3	5.6
Inox Wind	39	175	BUY	422	21.0	22.9	27.0	8.3	7.6	6.5	6.8	5.1	4.1	28.8	24.3	23.4
Triveni Turbine	38	116	BUY	146	3.3	4.0	4.5	35.5	29.2	25.8	22.1	20.6	17.8	41.3	39.1	34.7
KEC International	36	140	BUY	160	7.4	9.8	10.6	18.8	14.3	13.2	10.2	8.9	8.4	2.2	2.7	2.8
Kalpataru Power *	36	233	BUY	363	13.0	17.2	18.5	17.9	13.5	12.6	8.6	7.7	7.1	9.2	11.1	10.8
Techno Electric	34	295	BUY	371	12.3	15.9	19.3	23.9	18.5	15.3	16.6	11.9	10.4	13.0	17.3	18.6
Astra Microwave	9	103	BUY	154	6.5	6.8	8.6	15.8	15.1	12.0	9.1	8.3	6.8	16.3	14.0	15.6

*Note – Represents SA numbers

Source: Company, HDFC sec Inst Research

Income Statement - Consolidated

(Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Net Revenues	7,939	10,972	14,222	17,048	19,574
Growth (%)	12.1	38.2	29.6	19.9	14.8
Material Expenses	5,022	7,816	10,063	12,329	14,261
Employee Expenses	274	302	361	414	483
SG&A Expenses	563	642	846	1,005	1,215
Total Expenses	5,859	8,759	11,270	13,748	15,960
EBITDA	2,080	2,213	2,952	3,300	3,614
EBITDA Margin (%)	26.2	20.2	20.8	19.4	18.5
EBITDA Growth (%)	8.0	6.4	33.4	11.8	9.5
Depreciation	603	495	521	533	551
EBIT	1,477	1,718	2,432	2,767	3,063
Other Income (Including EO Items)	202	619	275	288	301
Interest	431	443	430	320	212
PBT	1,248	1,894	2,276	2,735	3,152
Tax (Incl Deferred)	185	486	445	537	620
RPAT	1,051	1,410	1,820	2,200	2,505
Minority Interest	12	(2)	12	(2)	27
EO (Loss) / Profit (Net Of Tax)	0	182	0	0	0
APAT	1,051	1,228	1,820	2,200	2,505
APAT Growth (%)	20	17	48	21	14
Adjusted EPS (Rs)	9.2	12.3	15.9	19.3	21.9
EPS Growth (%)	20.1	34.2	29.1	20.9	13.9

Source: Company, HDFC sec Inst Research

Balance Sheet - Consolidated

(Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital	228	228	228	228	228
Reserves	8,919	9,917	11,074	12,612	14,454
TOTAL SHAREHOLDERS FUNDS	9,147	10,145	11,302	12,840	14,683
Minority Interest	199	0	12	9	36
Long Term Debt	3,967	3,068	2,602	2,082	1,665
Short Term Debt	1,682	2,054	1,395	995	638
TOTAL DEBT	5,649	5,122	3,998	3,077	2,304
Net Deferred Taxes	7	8	8	8	8
Long Term Provisions & Others	185	98	0	0	0
TOTAL SOURCES OF FUNDS	15,187	15,373	15,319	15,934	17,030
APPLICATION OF FUNDS					
Net Block	10,209	8,246	7,975	7,692	7,391
CWIP	38	0	0	0	0
Goodwill	0	0	0	0	0
Investments	380	623	629	629	629
LT Loans & Advances	367	171	440	528	606
Total Non-current Assets	10,995	9,040	9,045	8,849	8,626
Inventories	63	379	195	234	268
Inventories	3,449	4,963	5,065	6,072	6,972
Other Current Assets	1,093	2,115	2,686	3,219	3,696
Cash & Equivalent	1,215	2,040	2,498	2,558	3,206
TOTAL CURRENT ASSETS	5,820	9,497	10,444	12,083	14,142
Creditors	1,491	2,997	3,896	4,671	5,363
Other Current Liabilities & Provns	137	166	273	327	375
TOTAL CURRENT LIABILITIES	1,627	3,164	4,169	4,998	5,738
NET CURRENT ASSETS	4,193	6,333	6,274	7,085	8,404
TOTAL APPLICATION OF FUNDS	15,187	15,373	15,319	15,934	17,030

Source: Company, HDFC sec Inst Research

Cash Flow - Consolidated

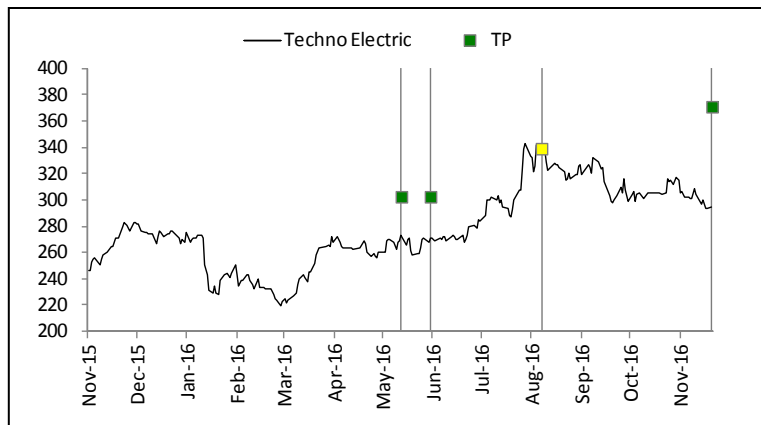
(Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Reported PBT	1,248	1,894	2,276	2,735	3,152
Non-operating & EO items	(202)	(619)	(275)	(288)	(301)
Interest Expenses	431	443	430	320	212
Depreciation	603	495	521	533	551
Working capital change	(1,590)	(1,206)	150	(838)	(749)
Tax Paid	(185)	(486)	(445)	(537)	(620)
Other operating items	(84)	(1,217)	0	0	0
OPERATING CASH FLOW (a)	221	(696)	2,657	1,925	2,245
Capex	(91)	2,424	(250)	(250)	(250)
Free Cash Flow	131	1,728	2,407	1,675	1,995
Investments	4	(243)	(7)	0	0
Non-operating Income	202	619	275	288	301
INVESTING CASH FLOW (b)	116	2,800	18	38	51
Debt Issuance/(Repaid)	(427)	(527)	(1,125)	(920)	(773)
Interest	(431)	(443)	(430)	(320)	(212)
FCFE	(728)	758	852	435	1,010
Share Capital Issuance	0	0	0	0	0
Minority Interest	0	0	0	0	0
Dividend	(230)	(309)	(662)	(662)	(662)
FINANCING CASH FLOW (c)	(1,089)	(1,279)	(2,217)	(1,903)	(1,647)
NET CASH FLOW (a+b+c)	(752)	825	458	60	649
Closing Cash & Equivalents	1,215	2,040	2,498	2,558	3,206

Source: Company, HDFC sec Inst Research

Key Ratios - Consolidated

	FY15	FY16	FY17E	FY18E	FY19E
PROFITABILITY %					
GPM	36.7	28.8	29.2	27.7	27.1
EBITDA margin	26.2	20.2	20.8	19.4	18.5
APAT margin	13.2	11.2	12.8	12.9	12.8
RoE	12.3	13.0	17.3	18.6	18.5
Core RoCE	9.3	9.4	15.0	17.0	18.1
RoCE	9.3	10.2	14.1	15.7	16.2
EFFICIENCY					
Tax Rate (%)	14.8	25.7	19.6	19.6	19.7
Fixed Asset Turnover (x)	0.8	1.3	1.8	2.2	2.6
Inventory (days)	2.9	12.6	5.0	5.0	5.0
Debtors (days)	158.6	165.1	130.0	130.0	130.0
Other Current Assets (days)	50.3	70.4	68.9	68.9	68.9
Payables (days)	68.5	99.7	100.0	100.0	100.0
Other Current Liab & Provns (days)	6.3	5.5	7.0	7.0	7.0
Cash Conversion Cycle (days)	136.9	142.8	96.9	96.9	96.9
Debt/EBITDA (x)	2.7	2.3	1.4	0.9	0.6
Net D/E (x)	0.5	0.3	0.1	0.0	(0.1)
Interest Coverage (x)	3.4	3.9	5.6	8.6	14.5
PER SHARE DATA (Rs)					
EPS	9.2	12.3	15.9	19.3	21.9
CEPS	14.5	15.1	20.5	23.9	26.8
Dividend	2.0	2.5	5.0	5.0	5.0
Book Value	80.1	88.8	99.0	112.5	128.6
VALUATION					
P/E (x)	32.0	23.9	18.5	15.3	13.4
P/BV (x)	3.7	3.3	3.0	2.6	2.3
EV/EBITDA (x)	18.3	16.6	11.9	10.4	9.1
EV/Revenues (x)	4.8	3.4	2.5	2.0	1.7
OCF/EV (%)	0.6	(1.9)	7.6	5.6	6.8
FCF/EV (%)	0.3	4.7	6.8	4.9	6.1
FCFE/Mkt Cap (%)	(1.9)	2.1	2.4	1.3	3.1
Dividend yield (%)	0.7	0.8	1.7	1.7	1.7

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
13-May-16	275	BUY	303
31-May-16	274	BUY	303
9-Aug-16	339	NEU	339
21-Nov-16	295	BUY	371

Rating Definitions

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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