Techno Electric - BUY

Expecting a robust FY18

Our interaction with the Techno Electric management revealed that ordering in the domestic T&D space has slowed down owing to demonetization, and the focus on project completion. As per management, FY17 growth rates would be marginally lower than initial guidance. However, the company continues to be upbeat on EPC segment margins at 15%. Wind asset sale, henceforth, would be at par, or at a premium, to the current deal due to the eased-off regional concerns. Led by strong T&D execution and steady margins, we expect the company to witness 32% earnings CAGR over FY16-19E. **We roll forward our estimates on FY19 with a revised target price to Rs.404 and maintain our Buy recommendation.**

FY17 order inflow likely to spill over to FY18

Order inflow YTD has been weaker than expected due to delay in finalization of orders. As per management, the delay is given the fact that SEBs and PGCIL are focused on execution. The company has bid for various projects and expects the awarding to spillover to Q1 FY18. The management is expecting order inflow to be lower than its previous guidance of Rs.10bn in H2 FY17 due to the said spillover. We have marginally lowered our revenue forecast, accounting for slower than expected growth in order inflow.

Wind asset sale continues

Techno sold 33MW of wind power in its standalone entity in TN at an effective valuation of Rs.1.65bn. Realization in this deal was higher at Rs.50mn/MW, than Rs.48mn/MW achieved in its previous sale. We believe this was largely due to resolution of issues related to transmission and receivables in the region. Cash received would be utilized for bidding for BOOT projects/one-time dividend or share buyback. The company is in advanced stages of receiving an order for a North-East project in a JV with Kalapataru Power.

Analyst: Tarang Bhanushali

CMP (Rs) 350	12-mts Target (Rs) 404	Upside 15.4%

Stock data (As on February 02, 2017) — **Sector: Capital Goods**

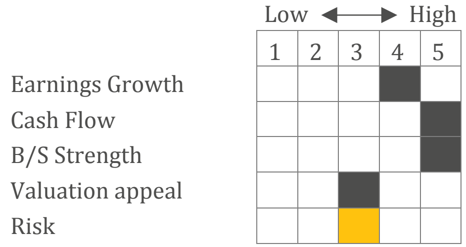
Sensex:	28,227
52 Week h/l (Rs):	360 / 209
Market cap (Rs mn) :	39,970
Enterprise value (Rs mn):	42,931
6m Avg t/o (Rs mn):	6.3
FV (Rs):	2
Div yield (%):	0.8

Bloomberg code:	TEEC IB
BSE code:	533281
NSE code:	TECHNO

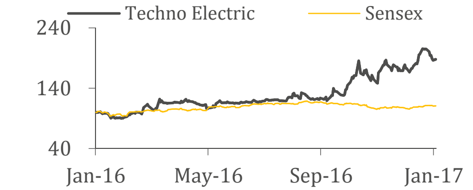
Shareholding pattern (%)

Promoter	58.0
FII+DII	23.7
Others	18.3

Company rating grid



Stock performance



	1M	3M	1Y
Absolute return (%)	15.8	14.2	45.2

Figure 1: Financial summary

Y/e 31 Mar (Rs m)	FY15	FY16	FY17E	FY18E	FY19E
Revenues	7,909	10,972	13,897	16,580	19,163
yoy growth (%)	11.6	38.7	26.7	19.3	15.6
OPM (%)	25.9	20.1	21.8	22.0	21.2
Reported PAT	1,021	1,406	2,251	2,828	3,219
yoy growth (%)	16.7	37.6	90.0	5.9	13.8
EPS (Rs)	8.9	12.3	19.7	24.8	28.2
P/E (x)	39.1	28.4	17.8	14.1	12.4
Price/Book (x)	4.4	3.9	3.3	2.8	2.4
EV/EBITDA (x)	21.7	19.5	13.4	10.8	9.2
Debt/Equity (x)	0.5	0.4	0.3	0.2	0.1
RoE	11.7	14.6	20.2	21.4	20.7
RoCE (%)	11.8	16.5	20.8	23.0	23.2

Source: Company, IIFL Research

The company is now left with 129.9MW of wind assets from 207MW at the start of FY16. Out of the 129.9MW, 12MW is left in the standalone entity and 118MW in its subsidiary, Simran Wind Project. The management believes that valuations on the rest would be at par or above the current transaction as concerns have eased out in the sector. The management also indicated that they sell its winds assets gradually as currently cash requirement is not low.

Techno continues to evaluate new expansion avenues

Techno was looking at solar EPC in FY17 to expand its portfolio as a de-risking strategy. However, the company was unable to bag any order in this space due to intense competition. The management believes that solar EPC space would remain highly competitive as entry barriers are quite low and many new players are entering this space. The company is actively looking at new opportunities to expand its reach and product portfolio. The management is looking at project opportunities for controlling air pollution from thermal power plants. The company is in the process of tying up with foreign players to enter this segment. Last year, the Ministry of environment, forest and climate change (MoEFCC) notified norms for coal-based power stations in a bid to cut down emissions of particulate matter (PM10), Sulphur dioxide (SO2) and Oxides of nitrogen (NOx) and improve the ambient air quality around power plants. As per media release, the cost for the technical changes could be Rs5-15mn per MW amounting to Rs800bn for domestic capacities. The management believes this is a huge opportunity and is actively tying up with foreign partners to bid for projects.

SEBs to drive overall order inflow

The management, in its Q2 FY17 concall, expected order inflow to be strong in H2 FY17 as pickup in orders from SEB and PGCIL was anticipated. However, due to demonetization and the PGCIL focus on completing its projects has led to delay in ordering in the sector. The management is expecting order inflow to be lower than its previous guidance of Rs.10bn in H2 FY17 due to spillover of orders to Q1 FY18. The company is also looking at increasing its order size to Rs.3-4bn from the current range of Rs.1.5-2.5bn. The management mentioned that going forward share of capex on transformation of overall T&D capex would increase to 40% from the current share of 30%. Techno’s current order book stands at Rs.25bn, providing revenue visibility over the next two years. Of the total order book, PGCIL accounts for 75% and SEBs account for the rest. It believes that PGCIL capex would remain flat on a yoy basis and growth in the T&D space would be largely led by SEBs. It believes implementation of UDAY scheme and increase in funding from multilateral agencies would enable SEBs to invest more into T&D. The management expects significant capex in the states of Madhya Pradesh, Rajasthan, Chhattisgarh, Andhra Pradesh, Telangana and Tamil Nadu. The slippage in FY17 ordering and the fact that SEBs are likely to be active in FY18, the company expects strong FY18 order inflows.

Strong earnings growth momentum to extend to FY18

We have marginally lowered our FY17 estimates to incorporate the impact of demonetization and delay in ordering. We believe this would be compensated by a strong FY18, as ordering would be strong in H1 FY18 and execution would continue to be robust. We have also lowered our estimates as contribution from wind asset would reduce with the recent asset sale. We estimate revenue CAGR of 20.4% over FY16-19 led by the strong capex in power T&D sector. With EPC margins staying high close to 14.5% over the same period and revival in wind power, the company is expected to witness earnings CAGR of 32% over FY16-19E. We value the company on a SOTP basis and arrive at a revised target price of Rs.404.

Financials

Figure 2: Balance sheet

Y/e 31 Mar (Rs m)	FY15	FY16	FY17E	FY18E	FY19E
Equity capital	114	114	228	228	228
Reserves	9,033	10,031	11,903	14,046	16,580
Net worth	**9,147**	**10,145**	**12,131**	**14,275**	**16,809**
Minority interest	199	0	2	4	6
Debt	4,725	4,084	3,471	2,950	2,508
Deferred tax liab (net)	7	8	8	8	8
Total liabilities	**14,078**	**14,236**	**15,612**	**17,236**	**19,330**
Fixed assets	10,247	8,246	7,120	7,111	6,905
Investments	1,347	1,547	1,547	1,547	1,547
Net working capital	**2,236**	**3,328**	**4,263**	**5,121**	**5,947**
Inventories	63	379	480	573	663
Sundry debtors	3,449	4,963	6,285	7,499	8,667
Other current assets	1,461	2,286	2,896	3,455	3,993
Sundry creditors	(2,582)	(4,119)	(5,217)	(6,225)	(7,195)
Other current liabilities	(155)	(181)	(181)	(181)	(181)
Cash	247	1,116	2,681	3,457	4,932
Total assets	**14,078**	**14,236**	**15,612**	**17,236**	**19,330**

Figure 3: Income statement

Y/e 31 Mar (Rs m)	FY15	FY16	FY17E	FY18E	FY19E
Revenue	7,909	10,972	13,897	16,580	19,163
Operating profit	**2,051**	**2,203**	**3,031**	**3,655**	**4,065**
Depreciation	(603)	(495)	(499)	(503)	(507)
Interest expense	(431)	(443)	(401)	(373)	(347)
Other income	202	629	566	622	685
Profit before tax	**1,219**	**1,894**	**2,697**	**3,402**	**3,895**
Taxes	(185)	(487)	(444)	(572)	(674)
Minorities and other	(12)	(2)	(2)	(2)	(2)
Adj. profit	**1,021**	**1,406**	**2,251**	**2,828**	**3,219**
Exceptional items	0	0	420	0	0
Net profit	**1,021**	**1,406**	**2,671**	**2,828**	**3,219**

Figure 4: Cash flow statement

Y/e 31 Mar (Rs m)	FY15	FY16	FY17E	FY18E	FY19E
Profit before tax	1,219	1,894	2,697	3,402	3,895
Depreciation	603	495	499	503	507
Tax paid	(185)	(487)	(444)	(572)	(674)
Working capital Δ	(1,343)	(1,092)	(935)	(858)	(826)
Operating cashflow	294	810	1,816	2,475	2,902
Capital expenditure	(122)	1,507	627	(494)	(300)
Free cash flow	**172**	**2,317**	**2,443**	**1,982**	**2,602**
Equity raised	303	277	(0)	-	-
Investments	522	(199)	-	-	-
Debt financing/disposal	(674)	(641)	(613)	(521)	(443)
Dividends paid	(548)	(685)	(685)	(685)	(685)
Other items	(8)	(200)	420	-	-
Net Δ in cash	**(234)**	**869**	**1,566**	**776**	**1,474**

Figure 5: Ratio analysis

Y/e 31 Mar	FY15	FY16	FY17E	FY18E	FY19E
Growth matrix (%)					
Revenue growth	11.6	38.7	26.7	19.3	15.6
Op profit growth	6.5	7.4	37.6	20.6	11.2
EBIT growth	19.7	41.7	32.6	21.8	12.4
Net profit growth	16.7	37.6	60.2	25.6	13.8
Profitability ratios (%)					
OPM	25.9	20.1	21.8	22.0	21.2
EBIT margin	20.9	21.3	22.3	22.8	22.1
Net profit margin	12.9	12.8	16.2	17.1	16.8
RoCE	11.8	16.5	20.8	23.0	23.2
RoNW	11.7	14.6	20.2	21.4	20.7
RoA	6.1	8.0	11.4	12.7	12.8
Per share ratios (Rs)					
EPS	8.9	12.3	19.7	24.8	28.2
Dividend per share	4.0	5.0	5.0	5.0	5.0
Cash EPS	14.2	16.6	24.1	29.2	32.6
Book value per share	80.1	88.8	106.2	125.0	147.2
Valuation ratios (x)					
P/E	39.1	28.4	17.8	14.1	12.4
P/CEPS	24.6	21.0	14.5	12.0	10.7
P/B	4.4	3.9	3.3	2.8	2.4
EV/EBIDTA	21.7	19.5	13.4	10.8	9.2
Payout (%)					
Dividend payout	53.7	48.7	30.4	24.2	21.3
Tax payout	15.2	25.7	16.5	16.8	17.3
Liquidity ratios					
Debtor days	159	165	165	165	165
Inventory days	3	13	13	13	13
Creditor days	119	137	137	137	137
Leverage ratios (x)					
Interest coverage	3.8	5.3	7.7	10.1	12.2
Net debt / equity	0.5	0.3	0.1	(0.0)	(0.1)
Net debt / op. profit	2.2	1.3	0.3	(0.1)	(0.6)

Figure 6: Du-Pont analysis

Y/e 31 Mar (Rs m)	FY15	FY16	FY17E	FY18E	FY19E
Tax burden (x)	0.84	0.74	0.83	0.83	0.83
Interest burden (x)	0.74	0.81	0.87	0.90	0.92
EBIT margin (x)	0.21	0.21	0.22	0.23	0.22
Asset turnover (x)	0.47	0.62	0.70	0.74	0.76
Financial leverage (x)	1.90	1.83	1.78	1.69	1.62
RoE (%)	**11.7**	**14.6**	**20.2**	**21.4**	**20.7**

IIFL Wealth Research bags 2 Best Analyst Awards

IIFL Wealth Research has bagged two prestigious awards at the ***Zee Business Market Excellence Awards 2016***.

Prayesh Jain was conferred the Best Analyst Award for Auto sector and **Bhavesh Gandhi** bagged the Best Analyst Award for Pharma sector.

Besides the twin awards, IIFL Wealth Research was also nominated in the categories of Oil/Gas, Banking and Industrials.

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In the past, the research team has won Zee Biz Awards under different categories; Bloomberg has rated our research as the most accurate, while we have twice been winners of Business Standard Smart Portfolios, having received awards at the hands of luminaries including President Pranab Mukherjee, Prime Minister Narendra Modi and Minister of State Piyush Goyal.

Recommendation parameters for fundamental reports:

Buy = >15%+

Accumulate = 5% to 15%

Reduce = -10% to 5%

Sell = >-10%

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