

Techno Electric | BUY

Blip in EPC revenue due to GST transition

Techno Electric (TEEC)'s 2QFY18 results missed our expectations. While we were negatively surprised by the magnitude of the decline in EPC segment sales (down 32% YoY), management highlighted that revenue booking had been deliberately slowed down after GST implementation, as it awaited clarity on tax rates, besides facing a few transitional issues. The sales decline in the wind energy segment was along expected lines due to sale of 33MW capacity in Jan'17. However, operating margins were stable despite a sharp fall in sales, due to a favourable execution mix and tight controls on fixed overheads. Given the temporary lull in T&D ordering, management has cut its annual order intake guidance to INR 12.5bn-15bn for FY18 and is focussing on reducing debt. However, its order book for FY19 is likely to see strong growth of 50% YoY, led by SEBs, industrial segments (aluminium, oil & gas) and EPC orders for BOOT projects. We maintain BUY with an SOTP-based TP of INR 435.

- Slower execution as company awaited clarity of taxation rates:** Net sales were down 31% YoY as management deliberately slowed down execution while it awaited clarity on GST rates for certain construction materials (cables, wires, prefab structures, panels, etc.). This led to a 32% YoY decline in the EPC's segment sales. In a recent communique by the GST council (10Nov'17), taxes on these items have been revised downwards to 18% vs. 28% earlier. While management expects the execution pace to normalise, it has cut its annual order intake guidance to 'INR 12.5bn-15bn' vs. 'INR 15bn-20bn' earlier due to poor ordering activity in the past 4 months. However, management expects a healthy pick-up in ordering activity in FY19, which can drive c.50% YoY growth in its order book. Prime contributions to these orders will be T&D orders for SEBs and BOOT projects undertaken by the company, FGD/SOx orders in the power generation segment and electrical packages in the industrial segment, as investment picks up in aluminium/oil & gas sectors.
- Operating margins to be range-bound due to reverse bidding:** Operating margins in the EPC segment declined 200bps YoY to 13.2%, largely due to a sales drop. However, focus on improving collections, reduction in fixed overheads and repayment of debt restricted the PBT decline to 23% YoY. A lower tax rate further reduced the net profit decline to 15% YoY (in-line with JMFfe). In 1HFY18, net profit was up 9% YoY.
- Wind segment IRRs improve; to reconsider the sale of remaining assets after reverse merger:** Management highlighted that improved realisations on wind energy capacity as well as an improvement in debtor collection has improved IRRs for the wind energy segment. Thus, management will reconsider its stance on the sale of the remaining capacity after completion of the reverse merger (expected to finish by end-FY18).
- Maintain BUY with TP of INR 435:** Management guided that it intends to utilise cash flows towards the reduction of debt and is likely to initiate another buyback by end-FY18, while order intake should see a significant improvement in FY19-FY20, driving strong growth in its order book. We maintain BUY with an SOTP-based TP of INR 435, valuing the EPC business at 20x Sep'19E earnings (INR 310), wind business at INR45mn/MW (INR 52), BOOT projects on NPV basis (INR 8) and cash+invst at book value (INR 65).



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	435
Upside/(Downside)	18.7%
Previous Price Target	435
Change	0.0%

Key Data – TEEC IN

Current Market Price	INR366
Market cap (bn)	INR41.8/US\$0.6
Free Float	42%
Shares in issue (mn)	114.2
Diluted share (mn)	112.7
3-mon avg daily val (mn)	INR29.5/US\$0.5
52-week range	439/280
Sensex/Nifty	33,034/10,225
INR/US\$	65.4

Price Performance

%	1M	6M	12M
Absolute	4.7	-9.8	20.6
Relative*	2.8	-17.5	-2.1

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	10,972	13,567	14,801	16,693	19,729
Sales Growth (%)	38.2	23.7	9.1	12.8	18.2
EBITDA	2,206	3,125	3,240	3,324	3,749
EBITDA Margin (%)	20.1	23.0	21.9	19.9	19.0
Adjusted Net Profit	997	1,741	2,388	2,547	2,969
Diluted EPS (INR)	8.7	15.2	21.2	22.6	26.4
Diluted EPS Growth (%)	-5.1	74.5	39.0	6.7	16.6
ROIC (%)	8.7	18.0	28.0	30.2	33.7
ROE (%)	11.2	17.1	19.8	18.0	18.0
P/E (x)	41.9	24.0	17.3	16.2	13.9
P/B (x)	4.5	3.8	3.2	2.7	2.3
EV/EBITDA (x)	20.7	14.0	12.6	11.7	9.8
Dividend Yield (%)	0.7	0.7	0.8	0.8	0.9

Source: Company data, JM Financial. Note: Valuations as of 13/Nov/2017

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Exhibit 1. SOTP Valuation (INR mn)

Business	Valuation basis	PAT/BV/NPV (Rsmn)	No: of shares (mn)	Value/sh (INR)
EPC segment	20x Sep'19 PAT	1,755	112.7	310
Wind business	130MW capacity at INR 45mn/MW	5,850	112.7	52
Jhajjar BOOT	NPV	1,679	112.7	4
Patran BOOM	NPV	1,106	112.7	4
Cash+invst	1x Sep'18E cash	7,286	112.7	65
Target Price				435

Source: Company, JM Financial

Exhibit 2. Quarterly Performance – Consolidated (INR mn)

Y/E March	2QFY17	2QFY18	% YoY	2QFY18E	% YoY E	1H17	1H18	% YoY
Net Sales	3,676	2,542	-30.8	3,386	-7.9	6,385	6,665	4.4
Expenditure	2,561	1,774	-30.7	2,452	-4.3	4,558	4,881	7.1
EBITDA	1,115	768	-31.2	934	-16.2	1,827	1,784	-2.4
EBITDA (%)	30.3	30.2	-10bps	27.6	-270bps	28.6	26.8	-180bps
Other income	61	109	78.6	64	5.0	139	223	60.6
Depreciation	133	106	-20.1	108	-18.8	265	212	-20.1
EBIT	1,044	771	-26.1	891	-14.7	1,700	1,795	5.6
Interest	126	60	-52.3	113	-10.0	218	146	-33.2
PBT before Eol	918	711	-22.6	777	-15.3	1,483	1,649	11.2
Extraordinary item	0	0		0		0	0	
PBT after Eol	918	711	-22.6	777	-15.3	1,483	1,649	11.2
Tax	200	106	-46.8	194	-2.8	284	352	23.7
Tax rate (%)	21.8	15.0		25.0		19.2	21.3	
Tax on Eol (assumed)	0	0		0		0	0	
PAT before MI/SA	718	604	-15.8	583	-18.8	1,198	1,298	8.3
Minority/Share of associates	-12	-4				-12	-7	
Reported PAT	706	601	-14.9	583	-17.4	1,186	1,291	8.8
Reported EPS (INR)	6.2	5.3	-13.8	5.2	-16.3	10.4	11.5	10.3

Source: Company, JM Financial

Exhibit 3. Cost break-up – Consolidated (INR mn)

Y/E March	2QFY17	2QFY18	% YoY	2QFY18E	% YoY E	1H17	1H18	% YoY
COGS	2,269	1,483	-34.6	2,133	-6.0	4,020	4,275	6.4
as a % of sales	61.7	58.3	-340bps	63.0	130bps	63.0	64.2	120bps
Staff Cost	100	103	2.3	115	15.0	172	185	7.1
as a % of sales	2.7	4.0	130bps	3.4	70bps	2.7	2.8	10bps
Other Expenditure	192	189	-1.5	203	5.9	366	421	14.8
as a % of sales	5.2	7.4	220bps	6.0	80bps	5.7	6.3	60bps

Source: Company, JM Financial

Exhibit 4. Segmental Performance – Consolidated (INR mn)

Y/E March	2QFY17	2QFY18	% YoY	1H17	1H18	% YoY
Revenue						
EPC (Construction)	2,968	2,014	-32.2	5,279	5,695	7.9
% of net sales	79.5	76.0		80.9	82.7	
Energy (Power)	708	528	-25.4	1,106	970	-12.4
% of net sales	19.0	19.9		17.0	14.1	
Corporate	56	109	92.9	139	223	60.6
% of net sales	1.5	4.1		2.1	3.2	
EBIT						
EPC (Construction)	452	266	-41.0	787	870	10.5
% EBIT	15.2	13.2	-200bps	14.9	15.3	40bps
Energy (Power)	534	395	-25.9	773	722	-6.6
% EBIT	75.4	74.9	-50bps	69.9	74.5	460bps
Corporate	44	109	144.9	127	223	75.8
% EBIT	78.7	100.0	2130bps	91.3	100.0	870bps

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement					
	(INR mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	10,972	13,567	14,801	16,693	19,729
Sales Growth	38.2%	23.7%	9.1%	12.8%	18.2%
Other Operating Income	0	0	0	0	0
Total Revenue	10,972	13,567	14,801	16,693	19,729
Cost of Goods Sold/Op. Exp	7,816	9,325	10,360	11,685	13,810
Personnel Cost	299	346	399	440	485
Other Expenses	652	772	800	1,243	1,684
EBITDA	2,206	3,125	3,240	3,324	3,749
EBITDA Margin	20.1%	23.0%	21.9%	19.9%	19.0%
EBITDA Growth	4.3%	41.7%	3.7%	2.6%	12.8%
Depn. & Amort.	494	508	427	427	427
EBIT	1,712	2,617	2,814	2,898	3,323
Other Income	375	258	452	497	547
Finance Cost	443	373	280	210	158
PBT before Excep. & Forex	1,644	2,502	2,985	3,184	3,712
Excep. & Forex Inc./Loss(-)	254	233	0	0	0
PBT	1,898	2,735	2,985	3,184	3,712
Taxes	721	837	597	637	742
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	-23	-29	0	0	0
Reported Net Profit	1,201	1,927	2,388	2,547	2,969
Adjusted Net Profit	997	1,741	2,388	2,547	2,969
Net Margin	9.1%	12.8%	16.1%	15.3%	15.0%
Diluted Share Cap. (mn)	114.2	114.2	112.7	112.7	112.7
Diluted EPS (INR)	8.7	15.2	21.2	22.6	26.4
Diluted EPS Growth	-5.1%	74.5%	39.0%	6.7%	16.6%
Total Dividend + Tax	343	343	372	406	440
Dividend Per Share (INR)	2.5	2.5	2.8	3.0	3.3

Source: Company, JM Financial

Balance Sheet					
	(INR mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Shareholders' Fund	9,279	11,070	13,083	15,225	17,754
Share Capital	114	228	225	225	225
Reserves & Surplus	9,164	10,842	12,858	14,999	17,528
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	5,122	3,028	908	727	581
Def. Tax Liab. / Assets (-)	1,025	1,161	1,161	1,161	1,161
Total - Equity & Liab.	15,426	15,259	15,153	17,112	19,496
Net Fixed Assets	8,236	6,487	6,411	6,334	6,257
Gross Fixed Assets	11,095	9,045	9,395	9,745	10,095
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	2,858	2,558	2,985	3,411	3,838
Capital WIP	0	0	0	0	0
Investments	1,561	4,660	4,660	4,660	4,660
Current Assets	8,753	7,916	9,354	12,064	15,606
Inventories	379	2	405	457	541
Sundry Debtors	4,963	5,596	6,285	6,860	8,108
Cash & Bank Balances	1,116	1,032	1,649	3,603	5,606
Loans & Advances	380	33	0	0	0
Other Current Assets	1,916	1,253	1,014	1,143	1,351
Current Liab. & Prov.	3,124	3,805	5,271	5,946	7,027
Current Liabilities	2,875	3,407	3,649	4,116	4,865
Provisions & Others	249	398	1,622	1,829	2,162
Net Current Assets	5,629	4,112	4,082	6,118	8,579
Total - Assets	15,426	15,259	15,153	17,112	19,496

Source: Company, JM Financial

Cash Flow Statement					
	(INR mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Profit before Tax	1,644	2,502	2,985	3,184	3,712
Depn. & Amort.	-423	-300	427	427	427
Net Interest Exp. / Inc. (-)	0	0	0	0	0
Inc (-) / Dec in WCap.	-1,237	1,434	647	-82	-457
Others	277	262	0	0	0
Taxes Paid	-486	-701	-597	-637	-742
Operating Cash Flow	-224	3,197	3,462	2,892	2,938
Capex	2,424	2,050	-350	-350	-350
Free Cash Flow	2,200	5,246	3,112	2,542	2,588
Inc (-) / Dec in Investments	-307	-3,100	0	0	0
Others	0	0	0	0	0
Investing Cash Flow	2,117	-1,050	-350	-350	-350
Inc / Dec (-) in Capital	0	114	-3	0	0
Dividend + Tax thereon	-172	-343	-372	-406	-440
Inc / Dec (-) in Loans	-527	-2,095	-2,119	-182	-145
Others	-325	93	0	0	0
Financing Cash Flow	-1,024	-2,230	-2,495	-588	-585
Inc / Dec (-) in Cash	869	-84	617	1,954	2,003
Opening Cash Balance	247	1,116	1,032	1,649	3,603
Closing Cash Balance	1,116	1,032	1,649	3,603	5,606

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Margin	9.1%	12.8%	16.1%	15.3%	15.0%
Asset Turnover (x)	0.7	0.9	1.0	1.0	1.1
Leverage Factor (x)	1.7	1.5	1.3	1.1	1.1
RoE	11.2%	17.1%	19.8%	18.0%	18.0%

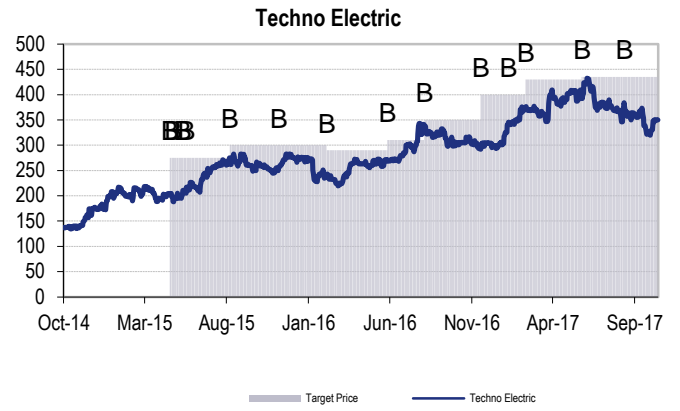
Key Ratios					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
BV/Share (INR)	81.3	97.0	116.1	135.1	157.6
ROIC	8.7%	18.0%	28.0%	30.2%	33.7%
ROE	11.2%	17.1%	19.8%	18.0%	18.0%
Net Debt/Equity (x)	0.4	0.2	-0.1	-0.2	-0.3
P/E (x)	41.9	24.0	17.3	16.2	13.9
P/B (x)	4.5	3.8	3.2	2.7	2.3
EV/EBITDA (x)	20.7	14.0	12.6	11.7	9.8
EV/Sales (x)	4.2	3.2	2.8	2.3	1.9
Debtor days	165	151	155	150	150
Inventory days	13	0	10	10	10
Creditor days	120	119	115	112	111

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	FY18E EPS (INR)	% Chg.	FY19E EPS (INR)	% Chg.	Target Price	% Chg.
21-Apr-15					275	
27-Apr-15					275	0.0
15-May-15					275	0.0
22-May-15					275	0.0
11-Aug-15	16.2				300	9.1
10-Nov-15	15.9	-1.9			300	0.0
8-Feb-16	14.0	-12.3			290	-3.3
31-May-16	15.9	13.6			310	6.9
8-Aug-16	18.1	14.2			350	12.9
21-Nov-16	18.1	0.0	22.8		400	14.3
12-Jan-17	19.4	7.2	21.8	-4.4	400	0.0
13-Feb-17	20.1	3.6	22.9	5.0	430	7.5
29-May-17	18.9	-6.0	22.2	-3.1	435	1.2
16-Aug-17	20.0	5.8	23.4	5.4	435	0.0

Recommendation History



APPENDIX I

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Corporate Identity Number: U65192MH1995PLC092522

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SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst – INH000000610

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