

Techno Electric

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Stellar performance

- Techno Electric (TEEC)'s operational performance was better than our and consensus expectations. While revenues increased by 52% yoy as the company hurried up project execution prior to GST implementation, the EBIDTAM declined by 160bps yoy. PAT was up by 42% yoy.
- Revenues in the EPC and Energy segments increased by 59% and 11% yoy respectively. EBITM in EPC segment increased by 190bps yoy. Order inflow increased by 57% yoy to Rs5.5bn while order backlog was down by 18% YoY to ~Rs24.5bn.
- Execution in the EPC segment is likely to slow down in FY18 as GST related impediments are likely to get resolved in the next 1-2 quarters. TEEC has maintained its previous FY18 guidance of 15-20% growth in EPC revenues.
- We retain FY18/19E earnings estimates and BUY rating on the stock. We value TEEC at Rs444 (SoTP)

Robust performance: TEEC's consolidated revenues increased by 52% yoy to Rs4.1bn. Revenues in the EPC segment increased by 59% yoy to Rs3.6bn as majority of the customers requested accelerated execution prior to GST implementation in order to optimise on taxes. It is pertinent to note that service tax rate in pre GST era was ~14-15% while the GST rates are at 18% on EPC projects. The energy segment also reported 11% yoy increase in revenues to Rs442mn. EBITM in the EPC segment increased by 190bps yoy to 16.4%. The energy segment reported EBIT at Rs327mn (Rs239mn in Q1FY17). While EBIDTAM declined by 160 bps yoy to 24.6%, EBITDA increased by 42.8% YoY to Rs1bn. Other income increased by 38% yoy to Rs114mn and PAT increased by 42% yoy to Rs690mn. Order inflows increased by 57% yoy to Rs5.5bn. Order backlog however declined by 18% yoy to Rs24.5bn – PGCIL (60%), NTPC (10%) and SEBs (25%).

Retain BUY: Since most of the pre GST tenders are headed for re-tendering, we do not expect major order finalisations in power T&D in 2QFY18 and 3QFY18. Our interactions with the T&D industry indicate that there would likely be a pause in STATCOM tenders for the next 3-4 quarters and incremental orders for STATCOMs are expected from 2HFY19 onwards. Past precedent indicates that whenever the ordering in power T&D stagnates, TEEC has focused on industrial orders – Aluminium and Refinery projects. TEEC has bid for a few projects in the aluminium and refinery space and expects finalisation in a couple of orders in the next few months. Going forward, TEEC expects to double the revenues and profitability over the next 3-5 years. Revenue in the EPC segment is expected to increase at ~ 20% CAGR over FY17-19E while the EBITM is expected to remain steady at ~15%. RoCE in the EPC segment is likely to remain at 100%+. We have assigned P/E multiple of 25x to FY19E earnings to value the core EPC business. We have valued the transmission PPP portfolio on FCFE with 13% cost of equity. The investment in the wind generation assets have been valued at 1x book value. We maintain BUY on TEEC with target price of Rs444 (SoTP)

Financial Snapshot (Consolidated)

(Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	7,939	10,972	13,567	15,664	19,173
EBITDA	2,114	2,203	3,125	3,155	3,754
EBITDA Margin (%)	26.6	20.1	23.0	20.1	19.6
APAT	1,051	1,406	1,927	2,175	2,754
EPS (Rs)	9.2	12.3	16.9	19.3	24.4
EPS (% chg)	20.1	33.8	37.1	14.3	26.6
ROE (%)	12.0	14.6	18.2	18.7	20.5
P/E (x)	40.2	30.1	21.9	19.2	15.1
EV/EBITDA (x)	22.1	20.5	13.9	13.1	10.4
P/BV (x)	4.6	4.2	3.8	3.4	2.9

Source: Company, Emkay Research

CMP	Target Price
Rs 370 as of (August 15, 2017)	Rs 444 (■) 12 months
Rating	Upside
BUY (■)	20.0 %

Change in Estimates

EPS Chg FY18E/FY19E (%)	1.6/1.2
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY18E	FY19E
Emkay	19.3	24.4
Consensus	20.2	23.9
Mean Consensus TP (12M)	Rs 432	

Stock Details

Bloomberg Code	TEEC IN
Face Value (Rs)	2
Shares outstanding (mn)	114
52 Week H/L	439 / 243
M Cap (Rs bn/USD bn)	42 / 0.66
Daily Avg Volume (nos.)	50,751
Daily Avg Turnover (US\$ mn)	0.3

Shareholding Pattern Jun '17

Promoters	58.8%
FIIIs	4.9%
DIIIs	17.8%
Public and Others	18.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	(9)	(2)	15
Rel. to Nifty	1	(13)	(11)	3

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Exhibit 1: Actual Vs. Emkay

(Rs mn)	Actual	Estimates		% variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Sales	4,123	2,561	2,718	61	52	Higher execution in the EPC segment
EBITDA	1,016	675	675	51	51	Lower than expected margins in the Energy segment
EBITDA, margin (%)	24.6	26.4	24.8	-170 bps	-20 bps	
PAT	690	431	463	60	49	Higher EBITDA and other income aids profitability

Source: Company, Emkay Research

Exhibit 2: Quarterly Financials – Consolidated

Rs mn	Q1FY17	Q4FY17	Q1FY18	YoY (%)	QoQ (%)
Revenue	2,709	3,619	4,123	52.2	13.9
Expenditure	1,998	3,075	3,107	55.5	1.0
Consumption of RM	1,751	2,745	2,793	59.5	1.7
as % of sales	65	76	68		
Employee Cost	72	97	82	13.7	(15.5)
as % of sales	3	3	2		
Other expenditure	174	233	232	32.8	(0.3)
as % of sales	6	6	6		
EBITDA	712	544	1,016	42.8	86.7
Depreciation	133	110	106	(20.2)	(3.7)
EBIT	579	434	910	57.2	109.6
Other Income	82	304	114	38.4	(62.5)
Interest	92	76	86	(7.1)	13.1
PBT	569	662	939	64.9	41.7
Total Tax	84	367	245	190.4	(33.2)
Adjusted PAT	485	295	693	43.0	134.7
(Profit)/loss from JV/ Associates	(0)	37	(3)	1,816.9	(108.2)
PAT after MI	485	333	690	42.4	107.5
Extra ordinary items	(4)	-	-		
Reported PAT	480	333	690	43.8	107.5
Adjusted EPS	4.2	2.9	6.1	44.3	110.3
	-	-	-		
Margins (%)				(bps)	(bps)
EBIDTA	26.3	15.0	24.6	(160)	960
EBIT	21.4	12.0	22.1	70	1,010
EBT	21.0	18.3	22.8	180	450
PAT	17.7	9.2	16.7	(100)	760

Source: Company, Emkay Research

Exhibit 3: Segmental Performance – Consolidated

Rs mn	Q1FY17	Q4FY17	Q1FY18	YoY (%)	QoQ (%)
Segment Revenues					
EPC (Construction)	2,311	3,572	3,681	59	3
Energy (Power)	399	47	442	11	833
Corporate	82	70	114	38	62
Total	2,792	3,690	4,237	52	15
Segment Results					
EPC (Construction)	335	494	604	80	22
Energy (Power)	239	174	327	37	88
Corporate	82	70	114	38	62
Others					
Total	657	738	1,044	59	41
Less: Interest	92	76	86	(7)	13
Corporate Exp	(5)	-	20	(545)	-
PBT	569	662	939	65	42
Segment Margin (%)				(bps)	(bps)
EPC (Construction)	14.5	13.8	16.4	190	260
Energy (Power)	60.0	368.3	74.0	1,400	(29,430)
Corporate	100.0	100.0	100.0	-	-

Source: Company, Emkay Research

Exhibit 4: Assumptions – Consolidated

Rs mn	FY15	FY16	FY17E	FY18E	FY19E
Revenues					
EPC	6,681	10,143	12,109	14,567	18,075
Energy	1,172	768	1,458	1,097	1,097
Total Operating revenue	7,939	10,972	13,743	15,664	19,173
EBIT					
EPC	958	1,426	1,773	2,009	2,604
Energy	553	283	1,077	652	652
Corporate	-	-	258	-	-
Total EBIT	1,511	1,709	3,109	2,661	3,255
Unallocated expenditure	0	-	492	-	-
Operating Income	1,511	1,709	2,617	2,661	3,255
Add: Other Income	202	629	492	319	404
Less: Interest Cost	465	443	373	157	118
PBT	1,248	1,894	2,735	2,822	3,541
Taxes	185	487	837	603	781
APAT	1,051	1,406	1,927	2,175	2,754
Order Inflows	14,931	15,000	15,450	22,050	27,563
Order Backlog	20,250	26,000	25,000	39,384	48,871

Source: Company, Emkay Research

Exhibit 5: SoTP valuation on FY19 Estimates

	Parameters	Value	TEEC Share	TEEC Share	Value
		(Rs mn)	(%)	(Rs mn)	Rs per share
EPC - Standalone	25x P/E on FY19E Earnings	45,562	100%	45,562	399
Energy - Simran	1x Price to book	4,241	100%	4,241	37
PPP Projects					
Jhajjar KT	FCFE	1,479	49%	724	6
Patran	FCFE	859	49%	421	4
Target Price					444

Source: Company, Emkay Research

Key earning call highlights

- Execution in power T&D is likely to slow down during the next couple of quarters. Management contends that incremental taxes are pass through under the terms of the contract and the contracts need to be amended to take into consideration the incremental taxes of 3-3.5%. Alternatively, TEEC would bear the differential taxes and later claim it from its clients. The endeavor would be to close the ongoing project sites and ensure timely collection of receivables.
- Management commentary indicates that the pre-GST tenders are most likely to be withdrawn and re-tendered.
- Company has maintained the EPC revenue growth guidance for FY18 at 15-20%. EBIDTAM in EPC segment is expected to remain at ~15-16%. Order intake for FY18 has also been maintained at Rs15-20bn.
- TEEC is expecting companies like Hindalco, Nalco and Vedanta to expand capacities. TEEC would be bidding for the electrical packages, captive power and power distribution in these projects.
- TEEC has also bided for NTPC tenders for SOx and NOx projects. The company expects each project to be ~Rs2.5 -5bn depending upon the size of the power plants. TEEC expects to gain at least 2-3 projects.
- As the wind assets are now operating at a PLF of 26%+ with a realisation of Rs4.5/ per unit, TEEC expects the profits from wind assets to touch ~Rs750mn in FY18. The company does not seem to be in a hurry to liquidate the wind assets. Management commentary indicates that TEEC would and wait for better valuations.

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	7,939	10,972	13,567	15,664	19,173
Expenditure	5,825	8,769	10,442	12,509	15,419
EBITDA	2,114	2,203	3,125	3,155	3,754
Depreciation	603	495	508	494	499
EBIT	1,511	1,709	2,617	2,661	3,255
Other Income	202	629	492	319	404
Interest expenses	465	443	373	157	118
PBT	1,248	1,894	2,735	2,822	3,541
Tax	185	487	837	603	781
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	(2)	29	(45)	(5)
Reported Net Income	1,051	1,406	1,927	2,175	2,754
Adjusted PAT	1,051	1,406	1,927	2,175	2,754

Balance Sheet

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Equity share capital	114	114	228	225	225
Reserves & surplus	9,033	10,031	10,842	12,014	14,363
Net worth	9,147	10,145	11,070	12,240	14,588
Minority Interest	199	0	0	0	0
Loan Funds	4,725	4,084	2,099	1,768	1,268
Net deferred tax liability	7	8	1,161	794	794
Total Liabilities	14,078	14,236	14,331	14,802	16,651
Net block	10,209	8,246	6,487	6,044	5,595
Investment	1,347	1,547	4,660	3,432	3,426
Current Assets	5,220	8,744	7,916	11,010	14,253
Cash & bank balance	247	1,116	1,032	2,187	3,919
Other Current Assets	421	1,181	1,253	1,693	1,693
Current liabilities & Provision	2,737	4,300	4,733	5,683	6,624
Net current assets	2,483	4,444	3,184	5,327	7,630
Misc. exp	0	0	0	0	0
Total Assets	14,078	14,236	14,331	14,802	16,651

Cash Flow

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
PBT (Ex-Other income) (NI+Dep)	1,046	1,266	2,244	2,504	3,137
Other Non-Cash items	(151)	(627)	691	(730)	(409)
Chg in working cap	(1,345)	(1,091)	2,330	(1,355)	(571)
Operating Cashflow	302	325	4,647	1,152	2,396
Capital expenditure	(122)	1,507	1,251	(50)	(50)
Free Cash Flow	180	1,833	5,898	1,102	2,346
Investments	522	(199)	(3,113)	1,228	5
Other Investing Cash Flow	198	(1,862)	0	0	0
Investing Cashflow	801	75	(1,371)	1,497	359
Equity Capital Raised	0	0	114	(600)	0
Loans Taken / (Repaid)	(674)	(641)	(1,984)	(331)	(500)
Dividend paid (incl tax)	(342)	(309)	(1,002)	(406)	(406)
Other Financing Cash Flow	152	(59)	(114)	0	0
Financing Cashflow	(1,330)	(1,451)	(3,360)	(1,494)	(1,024)
Net chg in cash	(227)	(1,052)	(84)	1,155	1,732
Opening cash position	481	247	1,116	1,032	2,187
Closing cash position	247	1,116	1,032	2,187	3,919

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY15	FY16	FY17	FY18E	FY19E
EBITDA Margin	26.6	20.1	23.0	20.1	19.6
EBIT Margin	19.0	15.6	19.3	17.0	17.0
Effective Tax Rate	14.8	25.7	30.6	21.4	22.1
Net Margin	13.4	12.8	14.0	14.2	14.4
ROCE	12.2	16.5	21.8	20.5	23.3
ROE	12.0	14.6	18.2	18.7	20.5
RoIC	12.6	14.2	25.9	29.9	35.2

Per Share Data (Rs)	FY15	FY16	FY17	FY18E	FY19E
EPS	9.2	12.3	16.9	19.3	24.4
CEPS	14.5	16.6	21.3	23.7	28.9
BVPS	80.1	88.8	97.0	108.6	129.5
DPS	2.0	2.5	0.0	3.0	3.0

Valuations (x)	FY15	FY16	FY17	FY18E	FY19E
PER	40.2	30.1	21.9	19.2	15.1
P/CEPS	25.5	22.2	17.3	15.6	12.8
P/BV	4.6	4.2	3.8	3.4	2.9
EV / Sales	5.9	4.1	3.2	2.6	2.0
EV / EBITDA	22.1	20.5	13.9	13.1	10.4
Dividend Yield (%)	0.5	0.7	0.0	0.8	0.8

Gearing Ratio (x)	FY15	FY16	FY17	FY18E	FY19E
Net Debt/ Equity	0.5	0.3	0.1	0.0	(0.2)
Net Debt/EBIDTA	2.1	1.3	0.3	(0.1)	(0.7)
Working Cap Cycle (days)	102.8	110.7	57.9	73.2	70.6

Growth (%)	FY15	FY16	FY17	FY18E	FY19E
Revenue	12.1	38.2	23.7	15.5	22.4
EBITDA	9.8	4.2	41.8	0.9	19.0
EBIT	20.0	13.1	53.2	1.7	22.3
PAT	20.1	33.8	37.1	12.8	26.6

Quarterly (Rs mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Revenue	2,709	3,676	3,563	3,619	4,123
EBITDA	712	1,115	754	544	1,016
EBITDA Margin (%)	26.3	30.3	21.2	15.0	24.6
PAT	480	706	409	333	690
EPS (Rs)	4.2	6.2	3.6	2.9	6.1

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Promoters	58.0	58.0	58.0	58.0	58.8
FIs	8.2	9.3	8.4	5.3	4.9
DIs	17.7	16.5	15.3	17.9	17.8
Public and Others	16.2	16.2	18.3	18.8	18.5

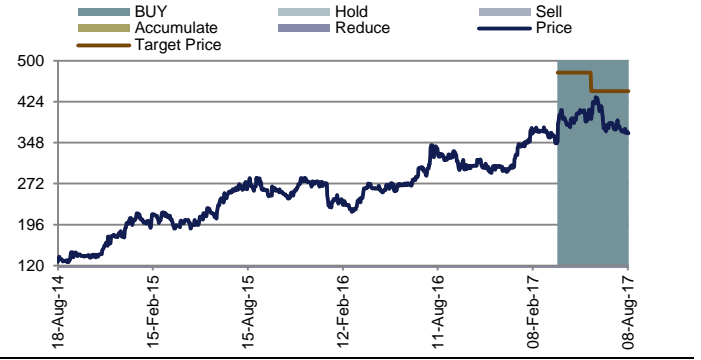
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
30-May-17	392	444	12m	Buy	John Perinchery
27-Mar-17	351	478	12m	Buy	John Perinchery

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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