

# Techno Electric & Engg Co - BUY

## Strong execution

Techno Electric registered strong earnings growth propelled by robust execution of 54.5% yoy. This was quite higher than ours and street estimates as the company preponed execution of many projects before GST implementation. The management mentioned that billing for the same was achieved during the quarter and would reduce the delay in receivables on account of GST. OPM too expanded by 190bps in the EPC business on account of strong execution. Order inflow during the quarter was Rs.5.5bn as the company managed to convert its L1 position into confirmed orders. The management mentioned that execution and ordering would be minuscule in Q2. It expects execution to pick up only from Q3 FY18 as clients are still assessing the impact of GST. Wind subsidiary performance continued to improve on the back of higher grid availability and superior wind. The management has maintained its guidance of 15-20% growth in revenue for EPC business in FY18. It also expects order inflow to be in the range of Rs.15-20bn and expects it to be back ended. Techno is trying to penetrate the FGD orders space to be released by thermal power players and expects ordering to be quite strong in this segment. We have marginally raised our estimates post the strong performance in Q1. We upgrade the stock to Buy as valuations are comfortable post the correction witnessed in the stock and improving earnings growth trajectory.

### Power Grid still the largest customer

Power Grid continues to account for a major share (60%) of Techno's order book of Rs.24.5bn. However, this has been reducing as orders from States have been rising. SEBs account for 25% of total orderbook, followed by NTPC and private players. As per the management, contracts which have not been finalized would be rebid and hence ordering would be back ended in FY18. The management believes that it would receive orders worth Rs.5bn over the next one year from power FGD projects. It also expects orders from aluminium smelters to improve on the back of rebound in global commodity prices.

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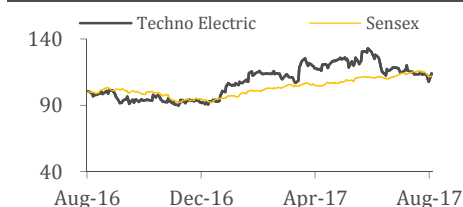
**CMP (Rs) 370**      **12-mts Target (Rs) 436**      **Upside 17.7%**

Stock data (As on August 14, 2017)

Sector: Capital goods

Sensex:	31,427
52 Week h/l (Rs):	439 / 262
Market cap (Rs mn) :	42,247
Enterprise value (Rs mn):	43,315
6m Avg t/o (Rs mn):	11.0
FV (Rs):	2
Div yield (%):	-
Bloomberg code:	TEEC IB
BSE code:	533281
NSE code:	TECHNO

### Stock performance



### Shareholding pattern (%)

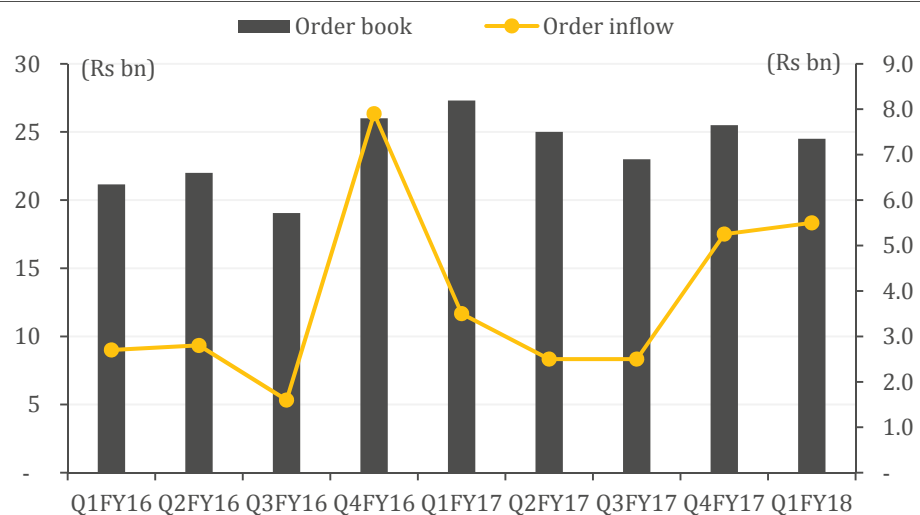
Promoter	58.8
FII+DII	23.2
Others	18.0

Figure 1: Result table (Standalone)

(Rs mn)	Q1 FY18	Q1 FY17	% yoy	Q4 FY17	% qoq
Revenue	3,681	2,383	54.5	3,574	3.0
Operating Profit	<b>610</b>	<b>407</b>	<b>49.7</b>	<b>504</b>	<b>21.0</b>
OPM (%)	<b>16.6</b>	<b>17.1</b>	<b>-52 bps</b>	<b>14.1</b>	<b>246 bps</b>
Other Income	(6)	(40)	(84.0)	(9)	(29.9)
Depreciation	(27)	(38)	(30.2)	(35)	(24.0)
Interest	67	12	449.7	278	(76.0)
PBT	-	(4)	(100.0)	-	-
PBT	644	337	91.2	738	(12.8)
Tax	(221)	(71)	210.4	(310)	(28.8)
<b>PAT</b>	<b>423</b>	<b>265</b>	<b>59.3</b>	<b>427</b>	<b>(1.1)</b>

Source: Company, IIFL Research

Figure 2: Q1 FY18 order inflow stood at Rs.550mn



Source: Company, IIFL Research

Figure 3: Cost analysis

As a % of net sales	Q1 FY18	Q1 FY17	bps yoy	Q4 FY17	bps qoq
Material costs	75.9	73.5	238	76.8	(95)
Personnel Costs	2.2	3.0	(78)	2.6	(47)
Other overheads	5.4	6.5	(108)	6.4	(104)
<b>Total costs</b>	<b>83.4</b>	<b>82.9</b>	<b>52</b>	<b>85.9</b>	<b>(246)</b>

Source: Company, IIFL Research

Figure 4: Segmental results (Standalone)

Y/e 31 Mar (Rs mn)	Q1 FY18	Q1 FY17	% yoy	Q4 FY17	% qoq
<b>Revenue</b>					
EPC	3,681	2,311	59.3	3,572	3.1
Energy	0	72	(100.0)	2	(100.0)
<b>Total</b>	<b>3,681</b>	<b>2,383</b>	<b>54.5</b>	<b>3,574</b>	<b>3.0</b>
<b>EBIT</b>					
EPC	604	335	80.0	494	22.3
Energy	0	27	(100.0)	235	(100.0)
<b>Total</b>	<b>604</b>	<b>363</b>	<b>66.5</b>	<b>729</b>	<b>(17.2)</b>
<b>EBIT Margin</b>					
			<b>bps yoy</b>		<b>bps qoq</b>
EPC	16.4	14.5	188	13.8	258
Energy	-	37.6	-	-	-
<b>Blended</b>	<b>16.4</b>	<b>15.2</b>	<b>118</b>	<b>20.4</b>	<b>(399)</b>

Source: Company, IIFL Research

Figure 5: Financial summary

Y/e 31 Mar (Rs m)	FY15	FY16	FY17	FY18E	FY19E
Revenues	7,909	10,972	13,567	15,589	17,522
yoy growth (%)	11.6	38.7	23.7	14.9	12.4
Operating profit	2,051	2,209	3,125	3,630	3,942
OPM (%)	25.9	20.1	23.0	23.3	22.5
Pre-exceptional PAT	1,021	950	1,927	2,573	2,854
Reported PAT	1,021	1,204	1,927	2,573	2,854
yoy growth (%)	16.7	17.8	60.1	33.5	10.9
EPS (Rs)	8.9	8.3	16.9	24.1	26.8
P/E (x)	41.4	44.5	21.9	15.3	13.8
Price/Book (x)	4.6	4.6	3.8	3.1	2.6
EV/EBITDA (x)	22.8	20.5	13.9	10.9	9.7
Debt/Equity (x)	0.5	0.4	0.2	0.1	0.1
RoE (%)	11.7	10.3	18.9	21.7	20.6
RoCE (%)	11.8	14.7	21.6	22.6	22.3

Source: Company, IIFL Research