

Techno Electric & Engg Co - Accumulate

Weak execution

Techno Electric posted weak set of results as the company continues to consolidate and wind power business impacted by rains. Adjusted for excise duty in Q4 FY17, EPC business revenues were marginally higher yoy, however, reported revenues were lower by 8.1% yoy. Wind business revenues were quite lower due to unseasonal rains in TN. Other income was lower on a yoy basis as last year the company benefited from sale of wind assets and dividend income from subsidiaries. Margins were lower than expected due to slower execution and rising commodity prices. During FY18, the company's focus was on consolidating and commissioning old on-going projects. Revenues of Rs.200mn was also pushed from Q4 to Q1 FY19 due to some issues. The company managed to collect significant amount of retention money and has been able to reduce its consolidated debt from Rs.3bn to Rs.670mn. This led to 32.8% yoy reduction of interest cost in Q4 FY18.

Techno is seeing some slowdown in domestic T&D space due to drying up of PGCIL ordering. However, tendering from SEB's such as Telangana, AP and TN are picking up. It sees increased traction in international T&D business, in countries such as Kenya, Afghanistan, Nepal and Bangladesh. Management mentioned that FGD orders are taking longer time to rolled out due to delayed decision making from the utilities side. Techno bagged single order worth Rs.623mn in Q4 FY18. Its order book as on March' 2018 stands at Rs.20.2bn. Further, it received Rs.2bn worth of orders Q1 FY19 till date, of which Rs.1.1bn order is from Afghanistan and rest Rs.900mn is from Andhra Pradesh. It expects an order inflow amounting to Rs.15-16bn in FY19, of which majority is expected to be bagged in H2 FY19. Management has guided for 10% revenue growth in FY19 with EPC margins maintained at +15%. We have tapered down our estimates, in line with management guidance and downgrade our rating to Accumulate with revised price target of Rs.363.

Analyst: Tarang Bhanushali, Rahul Jain



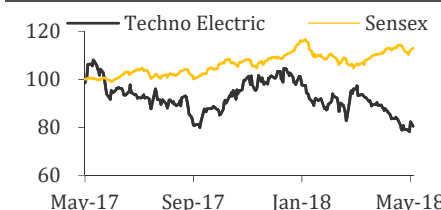
CMP (Rs) 321 **12-mts Target (Rs) 363** **Upside 13%**

Stock data (As on May 28, 2018)

Sector: Capital Goods

| | |
|---------------------------|-----------|
| Sensex: | 35,165 |
| 52 Week h/l (Rs): | 439 / 301 |
| Market cap (Rs mn) : | 36,171 |
| Enterprise value (Rs mn): | 36,000 |
| 6m Avg t/o (Rs mn): | 10.6 |
| FV (Rs): | 2 |
| Div yield (%): | - |
| Bloomberg code: | TEEC IB |
| BSE code: | 533281 |
| NSE code: | TECHNO |

Stock performance



Shareholding pattern (%)

| | |
|----------|------|
| Promoter | 58.8 |
| FII+DII | 23.8 |
| Others | 17.5 |

Figure 1: Result table (Consolidated)

| Y/e 31 Mar (Rs mn) | Q4 FY18 | Q4 FY17 | % yoy | Q3 FY18 | % qoq |
|-------------------------|--------------|--------------|------------------|--------------|--------------------|
| Net sales | 3,264 | 3,619 | (9.8) | 3,015 | 8.3 |
| Material costs | (2,604) | (2,745) | (5.1) | (1,982) | 31.4 |
| Personnel costs | (109) | (97) | 12.1 | (94) | 15.3 |
| Other overheads | (129) | (233) | (44.4) | (203) | (36.2) |
| Operating profit | 421 | 544 | (22.6) | 736 | (42.7) |
| OPM (%) | 12.9 | 15.0 | (213) bps | 24.4 | (1,149) bps |
| Depreciation | (106) | (110) | (3.4) | (106) | 0.4 |
| Interest | (51) | (76) | (32.8) | (39) | 30.6 |
| Other income | 129 | 304 | (57.4) | 17 | 646.9 |
| Ext ordry items | 65 | 37 | 75.1 | (4) | - |
| PBT | 459 | 700 | (34.4) | 605 | (24.1) |
| Tax | (125) | (367) | (65.9) | (170) | (26.5) |
| Reported PAT | 334 | 333 | 0.4 | 434 | (23.1) |

Source: Company, IIFL Research

Other quarterly highlights

- No new opportunities in Statcom visible in the near term. PGCIL would be observing delivered orders of WR package (for Aurangabad, Solapur and Sapna) which got completed and NR package (for Nalagarh, Gwalior and Lucknow) that is expected to be executed by Dec' 2018.
- International order from Kenya worth US\$90mn is expected to be bagged by Q3 FY19, having execution timeline of 2.5 years.
- 5.5 lakh REC monetized worth Rs.600mn, which was already accounted in FY17 and was liquidated in FY18.

Figure 2: Segmental results (Consolidated)

| Y/e 31 Mar (Rs mn) | Q4 FY18 | Q4 FY17 | % yoy | Q3 FY18 | % qoq |
|--------------------|--------------|--------------|----------------|--------------|----------------|
| Revenue | | | | | |
| EPC | 3,282 | 3,572 | (8.1) | 2,756 | 19.1 |
| Energy | (18) | 47 | - | 259 | - |
| Corporate | 129 | 70 | 83.9 | 17 | 646.9 |
| Total | 3,393 | 3,690 | (8.0) | 3,032 | 11.9 |
| EBIT | | | | | |
| EPC | 440 | 494 | (10.8) | 495 | (11.1) |
| Energy | (125) | 174 | - | 135 | - |
| Corporate | 129 | 70 | 84.0 | 17 | 651.1 |
| Total | 445 | 738 | (39.8) | 647 | (31.3) |
| EBIT Margin | | | | | |
| | | | bps yoy | | bps qoq |
| EPC | 13.4 | 13.8 | (41) | 18.0 | (455) |
| Energy | 684.3 | 368.3 | - | 52.1 | - |
| Blended | 13.1 | 20.0 | (690) | 21.3 | (824) |

Source: Company, IIFL Research

Figure 3: Cost analysis

| As a % of net sales | Q4 FY18 | Q4 FY17 | bps yoy | Q3 FY18 | bps qoq |
|---------------------|-------------|-------------|------------|-------------|--------------|
| Material costs | 79.8 | 75.9 | 394 | 65.7 | 1,405 |
| Personnel Costs | 3.3 | 2.7 | 65 | 3.1 | 20 |
| Other overheads | 4.0 | 6.4 | (246) | 6.7 | (276) |
| Total costs | 87.1 | 85.0 | 213 | 75.6 | 1,149 |

Source: Company, IIFL Research

Figure 4: Financial summary (Consolidated)

| Y/e 31 Mar (Rs m) | FY16 | FY17 | FY18E | FY19E | FY20E |
|-------------------|--------|--------|--------|--------|--------|
| Revenues | 10,972 | 13,567 | 12,944 | 13,995 | 15,595 |
| yoy growth (%) | 38.7 | 23.7 | (4.6) | 8.1 | 11.4 |
| OPM (%) | 20.1 | 23.0 | 22.7 | 24.0 | 23.3 |
| Reported PAT | 1,204 | 1,927 | 2,059 | 2,549 | 2,829 |
| yoy growth (%) | 17.8 | 60.1 | 6.8 | 23.8 | 11.0 |
| EPS (Rs) | 8.3 | 16.9 | 18.3 | 22.6 | 25.1 |
| P/E (x) | 38.6 | 19.0 | 17.6 | 14.2 | 12.8 |
| Price/Book (x) | 4.0 | 3.3 | 2.9 | 2.5 | 2.1 |
| EV/EBITDA (x) | 17.9 | 12.1 | 12.2 | 10.4 | 9.1 |
| Debt/Equity (x) | 0.4 | 0.2 | 0.0 | 0.0 | 0.0 |
| RoE (%) | 10.3 | 18.9 | 17.5 | 18.8 | 17.8 |
| RoCE (%) | 14.7 | 21.8 | 20.8 | 22.7 | 21.5 |

Source: Company, IIFL Research