

# Techno Electric | BUY

## Strong quarter on back of pre-GST execution

Techno Electric (TEEC) reported a solid set of results as sales grew 52% YoY beating JMFe (10% growth) mainly because of preponement of revenue booking in EPC segment (sales: +59% YoY) prior to GST implementation. This led to sturdy EBITDA growth of 43% YoY, significantly ahead of JMFe. Wind business saw healthy PLFs of 26%, thus reporting a 11% YoY growth in revenue, despite a 20% lower capacity, as 33MW of wind plants were sold in Jan'17. Management maintained its FY18 sales growth guidance of 15-18% for EPC segment with EBIT margins of 15-16%. Management expects business momentum to slow down in 2Q-3Q as industry irons out GST related issues. However, ordering momentum is likely to gather pace towards end-FY18, including inflows from areas of FGD (NTPC) and industrial power (aluminium smelters). Robust inflows in EPC segment, green shoots in high margin industrial spending and intention to divest balance portfolio of 130 MW wind assets is likely to result in strong profitability growth in FY18/19. We maintain BUY.

- Pre-GST order execution boosts revenue growth:** Net sales grew by 52% YoY, beating JMFe, as EPC segment reported 59% YoY growth in sales due to preponement of project execution prior to GST implementation. Order book stood at INR 24.5bn (-10% YoY), dominated by PGCIL (60%) and balance from NTPC (10%) and SEBs (25%). Order Inflows were INR 5.5bn (+57% YoY). Management expects order intake to soften in 2Q because of GST and re-negotiation of contracts but expects orders to start flowing in 2HFY18, thus maintaining its annual order intake guidance of INR 15-20bn, wherein INR 5bn will come from FGD space. TEEC is positive of getting at least 2-3 new projects from NTPC's bulk tender of almost 20 FGD projects. Further, the industrials segment (aluminium, refineries) is also witnessing improved traction which was not visible since 2-3 years.
- Margins to stay within 15-16% range:** EPC segment EBIT margin increased by 200bps YoY to 16.4%, due to operating leverage benefits, change in execution mix and better thrust on collections. Management guided that EBIT margins for this segment will be in 15-16% range vs 14.6% reported in FY17. For the wind business, better PLF's helped achieve strong EBIT margin of 74%. Net profit was up 44% YoY, far ahead of JMFe, on back of sharp growth in both segments. Other income grew by 46%YoY, despite INR 600mn buyback. Tax rate is inching up due to lower wind capacity, but a reverse merger with subsidiary should bring down the tax rate by end-FY18.
- Other details:** As of 30<sup>th</sup> June 2017, gross debt stood at INR 2bn and cash was INR 4.3bn. Receivables stood at 122 days as management continued its push for better collections and payables stood at 37 days. Capex of INR 1bn will be incurred towards BOOT project.
- Maintain BUY with TP of INR440:** While FY18 may see consolidation of sales, we maintain BUY (with TP of INR 440) as we believe improved balance sheet position will help TEEC to bid for larger orders and maintain strong profit growth of 22% CAGR in its EPC segment. On the other hand, liquidation of wind assets is likely to result in a sharp improvement in cash position and provide for necessary capital for investments in BOOT projects.



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	435
Upside/(Downside)	16.7%
Previous Price Target	435
Change	0.0%

### Key Data – TEEC IN

Current Market Price	Rs373
Market cap (bn)	Rs42.6/US\$0.7
Free Float	42%
Shares in issue (mn)	114.2
Diluted share (mn)	112.7
3-mon avg daily val (mn)	Rs19.5/US\$0.0
52-week range	439/243
Sensex/Nifty	31,449/9,794
Rs/US\$	64.1

### Price Performance

%	1M	6M	12M
Absolute	0.0	-0.9	15.7
Relative*	1.8	-10.7	3.6

\* To the BSE Sensex

Financial Summary	(Rs mn)				
Y/E March	FY15A	FY16A	FY17A	FY18E	FY19E
Net Sales	7,939	10,972	13,567	14,991	17,637
Sales Growth (%)	12.1	38.2	23.7	10.5	17.7
EBITDA	2,114	2,206	3,125	3,269	3,666
EBITDA Margin (%)	26.6	20.1	23.0	21.8	20.8
Adjusted Net Profit	1,051	997	1,741	2,253	2,640
Diluted EPS (INR)	9.2	8.7	15.2	20.0	23.4
Diluted EPS Growth (%)	20.1	-5.1	74.5	31.2	17.2
ROIC (%)	10.0	8.8	20.0	29.2	32.8
ROE (%)	12.0	10.8	17.1	18.8	18.8
P/E (x)	40.5	42.7	24.5	18.7	15.9
P/B (x)	4.7	4.6	3.8	3.2	2.8
EV/EBITDA (x)	22.8	20.6	13.9	12.8	10.8
Dividend Yield (%)	0.5	0.7	0.7	0.7	0.8

Source: Company data, JM Financial. Note: Valuations as of 14/Aug/2017

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
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S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

**Exhibit 1. Quarterly performance - Consolidated (INR mn)**

Y/E March	1QFY17	1QFY18	% YoY	1QFY18E	% YoY E	FY16	FY17	% YoY
<b>Net Sales</b>	<b>2,709</b>	<b>4,123</b>	<b>52.2</b>	<b>2,976</b>	<b>9.9</b>	<b>10,972</b>	<b>13,567</b>	<b>23.7</b>
Expenditure	1,998	3,107	55.5	2,285	14.4	8,766	10,442	19.1
EBITDA	712	1,016	42.8	691	-2.9	2,206	3,125	41.7
<b>EBITDA (%)</b>	<b>26.3</b>	<b>24.6</b>	<b>-160bps</b>	<b>23.2</b>	<b>-310bps</b>	<b>20.1</b>	<b>23.0</b>	<b>290bps</b>
Other income	78	114	46.4	62	-20.0	375	258	-31.2
Depreciation	133	106	-20.2	112	-15.5	494	508	2.8
EBIT	657	1,024	55.9	641	-2.4	2,087	2,875	37.8
Interest	92	86	-7.1	74	-20.0	443	373	-15.7
PBT before Eol	565	939	66.2	567	0.5	1,644	2,502	52.2
Extraordinary item	0	0		0		254	233	
PBT after Eol	565	939	66.2	567	0.5	1,898	2,735	44.1
Tax	84	245	190.4	113	34.3	721	837	16.1
Tax rate (%)	15.0	26.1		20.0		38.0	30.6	
Tax on Eol (assumed)	0	0		0		51	0	
PAT before MI/SA	480	693	44.4	454	-5.5	1,177	1,899	61.3
Minority/Share of associates	0	3						
<b>Reported PAT</b>	<b>480</b>	<b>690</b>	<b>43.8</b>	<b>454</b>	<b>-5.5</b>	<b>1,177</b>	<b>1,899</b>	<b>61.3</b>
<b>Reported EPS (₹)</b>	<b>4.2</b>	<b>6.1</b>	<b>45.7</b>	<b>4.0</b>	<b>-4.2</b>	<b>10.3</b>	<b>16.6</b>	<b>61.3</b>
<b>Adjusted PAT</b>	<b>480</b>	<b>690</b>	<b>43.8</b>	<b>454</b>	<b>-5.5</b>	<b>974</b>	<b>1,665</b>	<b>70.9</b>
<b>Adjusted EPS (₹)</b>	<b>4.2</b>	<b>6.1</b>	<b>45.7</b>	<b>4.0</b>	<b>-4.2</b>	<b>8.5</b>	<b>14.6</b>	<b>70.9</b>

Source: Company, JM Financial

**Exhibit 2. Cost break-up - Consolidated (INR mn)**

Y/E March	1QFY17	1QFY18	% YoY	1QFY18E	% YoY E	FY16	FY17	% YoY
COGS	1,751	2,793	59.5	1,994	13.9	7,816	9,325	19.3
as a % of sales	64.6	67.7	310bps	67.0	240bps	71.2	68.7	-250bps
Staff Cost	72	82	13.7	83	15.0	299	346	15.8
as a % of sales	2.7	2.0	-70bps	2.8	10bps	2.7	2.5	-20bps
Other Expenditure	174	232	32.8	208	19.4	652	772	18.3
as a % of sales	6.4	5.6	-80bps	7.0	60bps	5.9	5.7	-30bps

Source: Company, JM Financial

**Exhibit 3. Segmental performance - Consolidated (INR mn)**

Y/E March	1QFY17	1QFY18	% YoY	FY16	FY17	% YoY
<b>Revenue</b>						
EPC (Construction)	2,311	3,681	59.3	10,143	12,109	19.4
% of net sales	82.8	86.9		89.4	87.6	
Energy (Power)	399	442	10.8	829	1,458	75.8
% of net sales	14.3	10.4		7.3	10.5	
Corporate	82	114	38.4	375	258	-31.1
% of net sales	2.9	2.7		3.3	1.9	
<b>EBIT</b>						
EPC (Construction)	335	604	80.0	1,426	1,773	24.4
% EBIT	14.5	16.4	190bps	14.1	14.6	60bps
Energy (Power)	239	327	36.7	283	844	198.1
% EBIT	60.0	74.0	1400bps	34.1	57.9	2380bps
Corporate	82	114	38.4	375	258	-31.1
% EBIT	100.0	100.0	0bps	100.0	100.0	0bps

Source: Company, JM Financial

## Financial Tables (Consolidated)

Income Statement					
	(Rs mn)				
Y/E March	FY15A	FY16A	FY17A	FY18E	FY19E
Net Sales	7,939	10,972	13,567	14,991	17,637
Sales Growth	12.1%	38.2%	23.7%	10.5%	17.7%
Other Operating Income	0	0	0	0	0
<b>Total Revenue</b>	<b>7,939</b>	<b>10,972</b>	<b>13,567</b>	<b>14,991</b>	<b>17,637</b>
Cost of Goods Sold/Op. Exp	5,022	7,816	9,325	10,493	12,346
Personnel Cost	274	299	346	381	420
Other Expenses	529	652	772	847	1,205
<b>EBITDA</b>	<b>2,114</b>	<b>2,206</b>	<b>3,125</b>	<b>3,269</b>	<b>3,666</b>
EBITDA Margin	26.6%	20.1%	23.0%	21.8%	20.8%
EBITDA Growth	9.8%	4.3%	41.7%	4.6%	12.1%
Depn. & Amort.	603	494	508	508	508
EBIT	1,511	1,712	2,617	2,761	3,158
Other Income	202	375	258	336	352
Finance Cost	465	443	373	280	210
PBT before Excep. & Forex	1,248	1,644	2,502	2,817	3,300
Excep. & Forex Inc./Loss(-)	0	254	233	0	0
PBT	1,248	1,898	2,735	2,817	3,300
Taxes	185	721	837	563	660
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	12	-23	-29	0	0
Reported Net Profit	1,051	1,201	1,927	2,253	2,640
<b>Adjusted Net Profit</b>	<b>1,051</b>	<b>997</b>	<b>1,741</b>	<b>2,253</b>	<b>2,640</b>
Net Margin	13.2%	9.1%	12.8%	15.0%	15.0%
Diluted Share Cap. (mn)	114.2	114.2	114.2	112.7	112.7
<b>Diluted EPS (INR)</b>	<b>9.2</b>	<b>8.7</b>	<b>15.2</b>	<b>20.0</b>	<b>23.4</b>
Diluted EPS Growth	20.1%	-5.1%	74.5%	31.2%	17.2%
Total Dividend + Tax	273	343	343	372	406
Dividend Per Share (INR)	2.0	2.5	2.5	2.8	3.0

Source: Company, JM Financial

Balance Sheet					
	(Rs mn)				
Y/E March	FY15A	FY16A	FY17A	FY18E	FY19E
Shareholders' Fund	9,147	9,279	11,070	12,948	15,182
Share Capital	114	114	228	225	225
Reserves & Surplus	9,033	9,164	10,842	12,723	14,957
Preference Share Capital	0	0	0	0	0
Minority Interest	199	0	0	0	0
Total Loans	5,649	4,084	2,099	1,680	1,344
Def. Tax Liab. / Assets (-)	7	1,025	1,161	1,161	1,161
<b>Total - Equity &amp; Liab.</b>	<b>15,003</b>	<b>14,387</b>	<b>14,331</b>	<b>15,789</b>	<b>17,687</b>
Net Fixed Assets	10,247	8,246	6,487	6,329	6,171
Gross Fixed Assets	13,492	11,106	9,856	10,206	10,556
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	3,283	2,861	3,368	3,876	4,384
Capital WIP	38	0	0	0	0
Investments	1,347	1,561	4,660	4,660	4,660
Current Assets	5,220	8,753	7,916	10,138	13,138
Inventories	63	379	2	411	483
Sundry Debtors	3,449	4,963	5,596	6,366	7,248
Cash & Bank Balances	247	1,116	1,032	2,294	4,150
Loans & Advances	1,040	380	33	41	48
Other Current Assets	421	1,916	1,253	1,027	1,208
Current Liab. & Prov.	1,812	4,163	4,733	5,339	6,282
Current Liabilities	1,367	2,875	3,407	3,696	4,349
Provisions & Others	445	1,288	1,326	1,643	1,933
Net Current Assets	3,408	4,591	3,184	4,799	6,856
<b>Total - Assets</b>	<b>15,003</b>	<b>14,397</b>	<b>14,331</b>	<b>15,789</b>	<b>17,688</b>

Source: Company, JM Financial

Cash Flow Statement					
	(Rs mn)				
Y/E March	FY15A	FY16A	FY17A	FY18E	FY19E
Profit before Tax	1,248	1,644	2,502	2,817	3,300
Depn. & Amort.	572	-423	508	508	508
Net Interest Exp. / Inc. (-)	0	0	0	0	0
Inc (-) / Dec in WCap.	-1,590	-314	1,323	-354	-201
Others	-12	277	262	0	0
Taxes Paid	-188	298	-701	-563	-660
<b>Operating Cash Flow</b>	<b>31</b>	<b>1,482</b>	<b>3,895</b>	<b>2,407</b>	<b>2,948</b>
Capex	-91	2,424	1,251	-350	-350
Free Cash Flow	-60	3,906	5,145	2,057	2,598
Inc (-) / Dec in Investments	522	-307	-3,100	0	0
Others	0	0	0	0	0
<b>Investing Cash Flow</b>	<b>432</b>	<b>2,117</b>	<b>-1,849</b>	<b>-350</b>	<b>-350</b>
Inc / Dec (-) in Capital	0	0	114	-3	0
Dividend + Tax thereon	-130	-172	-343	-372	-406
Inc / Dec (-) in Loans	-427	-1,566	-1,984	-420	-336
Others	-138	-993	84	0	0
<b>Financing Cash Flow</b>	<b>-696</b>	<b>-2,730</b>	<b>-2,129</b>	<b>-795</b>	<b>-742</b>
<b>Inc / Dec (-) in Cash</b>	<b>-233</b>	<b>869</b>	<b>-83</b>	<b>1,262</b>	<b>1,855</b>
Opening Cash Balance	481	247	1,116	1,032	2,294
Closing Cash Balance	248	1,116	1,033	2,294	4,149

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY15A	FY16A	FY17A	FY18E	FY19E
Net Margin	13.2%	9.1%	12.8%	15.0%	15.0%
Asset Turnover (x)	0.5	0.7	0.9	1.0	1.1
Leverage Factor (x)	1.7	1.6	1.4	1.3	1.2
RoE	12.0%	10.8%	17.1%	18.8%	18.8%

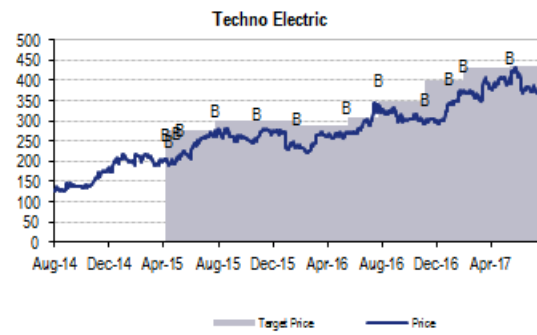
Key Ratios					
Y/E March	FY15A	FY16A	FY17A	FY18E	FY19E
BV/Share (INR)	80.1	81.3	97.0	114.9	134.7
ROIC	10.0%	8.8%	20.0%	29.2%	32.8%
ROE	12.0%	10.8%	17.1%	18.8%	18.8%
Net Debt/Equity (x)	0.6	0.3	0.1	0.0	-0.2
P/E (x)	40.5	42.7	24.5	18.7	15.9
P/B (x)	4.7	4.6	3.8	3.2	2.8
EV/EBITDA (x)	22.8	20.6	13.9	12.8	10.8
EV/Sales (x)	6.1	4.1	3.2	2.8	2.3
Debtor days	159	165	151	155	150
Inventory days	3	13	0	10	10
Creditor days	86	120	119	115	114

Source: Company, JM Financial

## History of Earnings Estimate and Target Price

Date	FY18E EPS (Rs)	% Chg.	FY19E EPS (Rs)	% 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
13-Jan-17	19.4	7.1	21.8	-4.4	400	0.0
14-Feb-17	20.1	3.6	22.9	5.0	430	7.5
29-May-17	18.9	-6.0	22.2	-4.0	435	1.2

## Recommendation History



## APPENDIX I

### JM Financial Institutional Securities Limited

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

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

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Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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