

# Techno Electric | HOLD

## Slowing T&D investments take a toll on order book

Techno Electric (TEEC)'s 4QFY18 results missed estimates as net sales fell 10% YoY, 6% below JMFe and EBITDA was down 23% YoY (23% below JMFe). While sales were partly impacted by a different accounting method vs. GST accounting, muted order inflows over the past 2 years affected the project execution pace and diverted management focus towards reducing receivables in the form of retention money. This helped reduce the consolidated debt by 80% in FY18 and strengthened TEEC's balance sheet position by increasing its surplus cash to c.INR 5bn (INR 44/share). However, we see deteriorating fundamentals in the near term on a) the OB/TTM sales ratio worsening to 1.7x vs. 3.0x/2.6x/1.9x in FY15/16/17, b) an increased risk profile as the company ventures into new regions (Kenya and Afghanistan) and business areas (FGD space) to counter slowing inflows from PGCIL and c) delays in awards in a pre-election year, which could lead to miss in inflow guidance (FY19 guidance: INR 15bn vs. FY18 inflow of INR 9.6bn). Thus, we cut our estimates by 3%/12% for FY19/20 and downgrade TEEC to HOLD as we reduce our SOTP-based TP to INR 325 (INR 440 earlier).

- **Slow execution derails momentum:** Net sales were down 10% YoY (6% below JMFe) as EPC segment sales declined 8% YoY, given slow execution and muted inflows in the last 8 quarters. Due to unexpected rains and the seasonal impact, wind energy revenues were down 71% YoY. We expect revenue CAGR of 6% for FY18-20 as we believe the execution pace could be slower-than-expected in a pre-election year.
- **Operating margins descend:** EPC segment margins were lower YoY by 40bps to 13.4% due to slow execution, while the wind segment posted a loss of INR 125mn. EBITDA was down 17% YoY, with margins slipping 140bps to 13.7% (JMFe: 16.8%). Debt reduction from INR 3bn to INR 0.7bn as on Mar'18 led to 33% decline in interest outgo, while other income grew 84%, up 43% for the full year on higher treasury income. Net profit was up 234% YoY, but below JMFe, mainly due to the loss in the wind segment.
- **Order intake guidance condensed:** Order intake for FY18 stood at INR 9.6bn (+10% YoY), leading to a closing order book position of INR 20.2bn, 1.7x TTM sales. Management guides for FY19 order intake at INR 15-16bn (previously INR 25bn), comprising export orders (INR 2bn), FGD (INR 4bn), T&D (INR 7-8bn) and industrial (INR 2bn). Its foray into setting up EV charging stations is a longer-term opportunity that TEEC plans to explore; it is currently bidding for a project offered by NTPC. The NCLT approval for amalgamation of the company into Simran Wind should be completed in Jun'18.
- **Downgrade to HOLD; TP revised to INR 325:** FY18 revenues were down 4% YoY as it was a consolidation year and the focus was on debt reduction. However, we see weakening fundamentals in the near term due to a) the OB/TTM sales ratio worsening to 1.7x vs. 3.0x/2.6x/1.9x in FY15/16/17, b) increased risk profile as TEEC ventures into new regions and business segments to counter slowing inflows from PGCIL and c) award delays in a pre-election year, which could lead to a miss in inflow guidance. We downgrade to HOLD with a revised SOTP-based TP of INR 325, as we cut our EPS by 3%/12% for FY19E/20E.



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### Recommendation and Price Target

Current Reco.	HOLD
Previous Reco.	BUY
Current Price Target (12M)	325
Upside/(Downside)	3.5%
Previous Price Target	440
Change	-26.1%

### Key Data – TEEC IN

Current Market Price	INR314
Market cap (bn)	INR35.4/US\$0.5
Free Float	45%
Shares in issue (mn)	112.7
Diluted share (mn)	112.7
3-mon avg daily val (mn)	INR37.4/US\$0.6
52-week range	439/301
Sensex/Nifty	34,949/10,633
INR/US\$	67.9

### Price Performance

%	1M	6M	12M
Absolute	-10.6	-19.4	-20.8
Relative*	-10.5	-22.5	-29.5

\* To the BSE Sensex

### Financial Summary

Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Sales	10,972	13,567	12,976	13,746	14,537
Sales Growth (%)	38.2	23.7	-4.4	5.9	5.8
EBITDA	2,206	3,125	2,970	3,069	3,187
EBITDA Margin (%)	20.1	23.0	22.9	22.3	21.9
Adjusted Net Profit	997	1,741	2,079	2,300	2,463
Diluted EPS (INR)	8.7	15.2	18.5	20.4	21.9
Diluted EPS Growth (%)	-5.1	74.5	21.0	10.6	7.1
ROIC (%)	8.7	18.0	23.8	26.6	27.0
ROE (%)	11.2	17.1	17.6	17.1	16.0
P/E (x)	35.9	20.6	17.0	15.4	14.4
P/B (x)	3.9	3.2	2.8	2.5	2.2
EV/EBITDA (x)	17.9	12.0	11.9	11.0	10.0
Dividend Yield (%)	0.8	0.8	0.9	1.0	1.0

Source: Company data, JM Financial. Note: Valuations as of 29/May/2018

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
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**Exhibit 1. SOTP Valuation**

Business	Valuation basis	PAT/BV/NPV (INR mn)	No: of shares (mn)	Value/sh (INR)	
EPC segment	16x Mar'20 PAT	1,508		112.7	215
Wind business	130MW capacity at INR 45mn/MW	5,850		112.7	50
Jhajjar BOOT	NPV	1,679		112.7	5
Patran BOOM	NPV	1,106		112.7	5
Cash+invst	1x Mar'19E cash	5,909		112.7	50
<b>Target Price</b>					<b>325</b>

Source: Company, JM Financial

**Exhibit 2. Quarterly Performance (INR mn)**

Y/E March	4QFY17	4QFY18	% YoY	4QFY18E	% YoY E	FY17	FY18	% YoY
<b>Net Sales</b>	<b>3,619</b>	<b>3,296</b>	<b>-8.9</b>	<b>3,478</b>	<b>-3.9</b>	<b>13,567</b>	<b>12,976</b>	<b>-4.4</b>
Expenditure	3,075	2,846	-7.5	2,895	-5.9	10,442	10,006	-4.2
EBITDA	544	450	-17.3	583	7.2	3,125	2,970	-5.0
<b>EBITDA (%)</b>	<b>15.0</b>	<b>13.7</b>	<b>-140bps</b>	<b>16.8</b>	<b>170bps</b>	<b>23.0</b>	<b>22.9</b>	<b>-10bps</b>
Other income	70	129	83.8	95	35.4	258	370	43.2
Depreciation	110	106	-3.4	109	-0.6	508	424	-16.6
EBIT	505	473	-6.2	570	12.8	2,875	2,916	1.4
Interest	76	51	-32.8	39	-47.9	373	235	-36.9
PBT before Eol	429	423	-1.5	530	23.6	2,502	2,680	7.1
Extraordinary item	233	0		0		233	0	
PBT after Eol	662	423	-36.2	530	-20.0	2,735	2,680	-2.0
Tax	367	125	-65.9	36	-90.3	837	647	-22.7
Tax rate (%)	55.4	29.6		6.7		30.6	24.1	
Tax on Eol (assumed)	47	0		0		0	0	
PAT before MI/SA	295	297	0.7	495	67.5	1,899	2,033	7.1
Minority/Share of associates	0	65				0	55	
<b>Reported PAT</b>	<b>295</b>	<b>363</b>	<b>22.8</b>	<b>495</b>	<b>67.5</b>	<b>1,899</b>	<b>2,088</b>	<b>10.0</b>
<b>Reported EPS (INR)</b>	<b>2.6</b>	<b>3.2</b>	<b>22.8</b>	<b>4.4</b>	<b>67.5</b>	<b>16.8</b>	<b>18.5</b>	<b>10.0</b>
<b>Adjusted PAT</b>	<b>109</b>	<b>363</b>	<b>233.9</b>	<b>495</b>	<b>355.5</b>	<b>1,665</b>	<b>2,088</b>	<b>25.4</b>
<b>Adjusted EPS (INR)</b>	<b>1.0</b>	<b>3.2</b>	<b>233.9</b>	<b>4.4</b>	<b>355.5</b>	<b>14.8</b>	<b>18.5</b>	<b>25.4</b>

Source: Company, JM Financial

**Exhibit 3. Cost break-up (INR mn)**

Y/E March	4QFY17	4QFY18	% YoY	4QFY18E	% YoY E	FY17	FY18	% YoY
COGS	2,745	2,604	-5.1	2,953	7.6	9,325	8,862	-5.0
as a % of sales	75.9	79.0	320bps	84.9	900bps	68.7	68.3	-40bps
Staff Cost	97	109	12.1	120	23.9	346	388	12.2
as a % of sales	2.7	3.3	60bps	3.5	80bps	2.5	3.0	40bps
Other Expenditure	233	133	-43.0	-178	-176.7	772	756	-2.0
as a % of sales	6.4	4.0	-240bps	-5.1	NA	5.7	5.8	10bps

Source: Company, JM Financial

**Exhibit 4. Segmental Performance (INR mn)**

Y/E March	4QFY17	4QFY18	% YoY	FY17	FY18	% YoY
<b>Revenue</b>						
EPC (Construction)	3,572	3,282	-8.1	12,109	11,734	-3.1
% of net sales	96.8	95.8		87.6	87.9	
Energy (Power)	47	14	-71.2	1,458	1,242	-14.8
% of net sales	1.3	0.4		10.5	9.3	
Corporate	70	129	83.9	258	370	43.2
% of net sales	1.9	3.8		1.9	2.8	
<b>EBIT</b>						
EPC (Construction)	494	440	-10.8	1,773	1,806	1.8
% EBIT	13.8	13.4	-40bps	14.6	15.4	70bps
Energy (Power)	-59	-125	111.3	844	732	-13.3
% EBIT	NA	NA	NA	57.9	58.9	110bps
Corporate	70	129	83.9	258	370	43.3
% EBIT	100.0	100.0	0bps	99.9	100.0	0bps

Source: Company, JM Financial

**Exhibit 5. Change in estimates**

	Revised Estimates		Previous Estimates		% chg		YoY %	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Net Sales	13,746	14,537	15,266	18,511	-10.0	-21.5	5.9	5.8
EBITDA	3,069	3,187	3,181	3,636	-3.5	-12.3	3.6	3.9
EBITDA Margin (%)	22.3	21.9	20.8	19.6	<b>150bps</b>	<b>230bps</b>	<b>-50bps</b>	<b>-40bps</b>
Adj PAT	2,300	2,463	2,365	2,791	-2.7	-11.8	10.6	7.1
Adj EPS (Rs)	20.4	21.9	21.0	24.8	-2.7	-11.8	10.6	7.1
RoCE (%)	16.8	15.6	15.7	16.2				
RoE (%)	17.1	16.0	17.0	17.4				

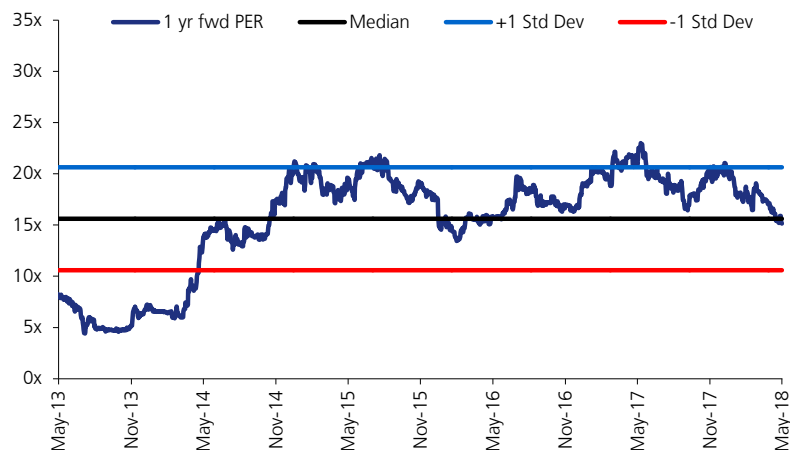
Source: Company, JM Financial

**Exhibit 6. Growth rate assumptions**

	Revised Estimates		Previous Estimates		% chg	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
EPC	12,450	13,241	15,326	18,362	-18.8	-27.9
% YoY	6.1	6.4	13.7	19.8	-760bps	-1350bps
Power	1,296	1,296	1,367	1,367	-5.2	-5.2
% YoY	4.3	0.0	3.6	0.0	70bps	0bps
Corporate	407	447	497	547	-18.2	-18.2
% YoY	10.0	10.0	10.0	10.0	0bps	0bps

Source: Company, JM Financial

**Exhibit 7. PER Chart**



Source: Company, JM Financial

## Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Sales	10,972	13,567	12,976	13,746	14,537
Sales Growth	38.2%	23.7%	-4.4%	5.9%	5.8%
Other Operating Income	0	0	0	0	0
<b>Total Revenue</b>	<b>10,972</b>	<b>13,567</b>	<b>12,976</b>	<b>13,746</b>	<b>14,537</b>
Cost of Goods Sold/Op. Exp	7,816	9,325	8,862	9,622	10,176
Personnel Cost	299	346	388	428	471
Other Expenses	652	772	756	628	702
<b>EBITDA</b>	<b>2,206</b>	<b>3,125</b>	<b>2,970</b>	<b>3,069</b>	<b>3,187</b>
EBITDA Margin	20.1%	23.0%	22.9%	22.3%	21.9%
EBITDA Growth	4.3%	41.7%	-5.0%	3.3%	3.9%
Depn. & Amort.	494	508	424	424	424
EBIT	1,712	2,617	2,546	2,645	2,764
Other Income	375	258	370	407	447
Finance Cost	443	373	235	177	132
PBT before Excep. & Forex	1,644	2,502	2,680	2,875	3,078
Excep. & Forex Inc./Loss(-)	254	233	0	0	0
PBT	1,898	2,735	2,680	2,875	3,078
Taxes	721	837	647	575	616
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	-23	-29	-55	0	0
Reported Net Profit	1,201	1,927	2,088	2,300	2,463
<b>Adjusted Net Profit</b>	<b>997</b>	<b>1,741</b>	<b>2,079</b>	<b>2,300</b>	<b>2,463</b>
Net Margin	9.1%	12.8%	16.0%	16.7%	16.9%
Diluted Share Cap. (mn)	114.2	114.2	112.7	112.7	112.7
<b>Diluted EPS (INR)</b>	<b>8.7</b>	<b>15.2</b>	<b>18.5</b>	<b>20.4</b>	<b>21.9</b>
Diluted EPS Growth	-5.1%	74.5%	21.0%	10.6%	7.1%
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

Cash Flow Statement					(INR mn)
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Profit before Tax	1,644	2,502	2,680	2,875	3,078
Depn. & Amort.	-423	-300	424	424	424
Net Interest Exp. / Inc. (-)	0	0	0	0	0
Inc (-) / Dec in WCcap.	-1,237	1,434	403	-148	-162
Others	277	262	55	0	0
Taxes Paid	-486	-701	-930	-575	-616
<b>Operating Cash Flow</b>	<b>-224</b>	<b>3,197</b>	<b>2,632</b>	<b>2,575</b>	<b>2,724</b>
Capex	2,424	2,050	15	-499	-500
Free Cash Flow	2,200	5,246	2,647	2,076	2,224
Inc (-) / Dec in Investments	-307	-3,100	157	0	0
Others	0	0	0	0	0
<b>Investing Cash Flow</b>	<b>2,117</b>	<b>-1,050</b>	<b>172</b>	<b>-499</b>	<b>-500</b>
Inc / Dec (-) in Capital	0	114	-3	0	0
Dividend + Tax thereon	-172	-343	-372	-406	-440
Inc / Dec (-) in Loans	-527	-2,095	-2,781	-49	-40
Others	-325	93	-253	-1	0
<b>Financing Cash Flow</b>	<b>-1,024</b>	<b>-2,230</b>	<b>-3,409</b>	<b>-457</b>	<b>-480</b>
<b>Inc / Dec (-) in Cash</b>	<b>869</b>	<b>-84</b>	<b>-605</b>	<b>1,620</b>	<b>1,744</b>
Opening Cash Balance	247	1,116	1,032	418	2,038
Closing Cash Balance	1,116	1,032	427	2,038	3,782

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Shareholders' Fund	9,279	11,070	12,520	14,414	16,436
Share Capital	114	228	225	225	225
Reserves & Surplus	9,164	10,842	12,295	14,188	16,211
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	1	0	0
Total Loans	5,122	3,028	247	198	158
Def. Tax Liab. / Assets (-)	1,025	1,161	879	879	879
<b>Total - Equity &amp; Liab.</b>	<b>15,426</b>	<b>15,259</b>	<b>13,647</b>	<b>15,490</b>	<b>17,473</b>
Net Fixed Assets	8,236	6,487	6,048	6,124	6,200
Gross Fixed Assets	11,095	9,045	9,029	9,529	10,029
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	2,858	2,558	2,982	3,405	3,829
Capital WIP	0	0	1	0	0
Investments	1,561	4,660	4,503	4,503	4,503
Current Assets	8,753	7,916	8,833	9,382	11,548
Inventories	379	2	78	377	398
Sundry Debtors	4,963	5,596	7,578	5,649	5,974
Cash & Bank Balances	1,116	1,032	418	2,038	3,782
Loans & Advances	380	33	33	0	0
Other Current Assets	1,916	1,253	725	1,318	1,394
Current Liab. & Prov.	3,124	3,805	5,739	4,519	4,779
Current Liabilities	2,875	3,407	4,492	3,389	3,584
Provisions & Others	249	398	1,247	1,130	1,195
Net Current Assets	5,629	4,112	3,095	4,862	6,769
<b>Total - Assets</b>	<b>15,426</b>	<b>15,259</b>	<b>13,647</b>	<b>15,490</b>	<b>17,473</b>

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Margin	9.1%	12.8%	16.0%	16.7%	16.9%
Asset Turnover (x)	0.7	0.9	0.9	0.9	0.9
Leverage Factor (x)	1.7	1.5	1.2	1.1	1.1
RoE	11.2%	17.1%	17.6%	17.1%	16.0%

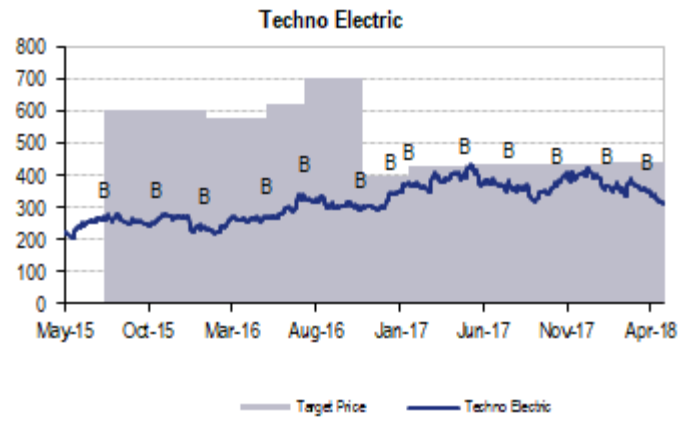
Key Ratios					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
BV/Share (INR)	81.3	97.0	111.1	127.9	145.9
ROIC	8.7%	18.0%	23.8%	26.6%	27.0%
ROE	11.2%	17.1%	17.6%	17.1%	16.0%
Net Debt/Equity (x)	0.4	0.2	0.0	-0.1	-0.2
P/E (x)	35.9	20.6	17.0	15.4	14.4
P/B (x)	3.9	3.2	2.8	2.5	2.2
EV/EBITDA (x)	17.9	12.0	11.9	11.0	10.0
EV/Sales (x)	3.6	2.8	2.7	2.4	2.2
Debtor days	165	151	213	150	150
Inventory days	13	0	2	10	10
Creditor days	120	119	164	116	115

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
12-Aug-15	Buy	600	
13-Nov-15	Buy	600	0.0
9-Feb-16	Buy	580	-3.3
1-Jun-16	Buy	620	6.9
9-Aug-16	Buy	700	12.9
21-Nov-16	Buy	400	-42.9
13-Jan-17	Buy	400	0.0
14-Feb-17	Buy	430	7.5
29-May-17	Buy	435	1.2
16-Aug-17	Buy	435	0.0
13-Nov-17	Buy	435	0.0
12-Feb-18	Buy	440	1.1
26-Apr-18	Buy	440	0.0

Recommendation History



## APPENDIX I

### JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

**Corporate Identity Number: U67100MH2017PLC296081**

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Sell	Price expected to move downwards by more than 10%

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