

Institutional Equity Research

## Techno Electric & Engg.

Capital Goods | India

1QFY18 Result Update | August 17, 2017

CMP* (Rs)	377
Upside/ (Downside) (%)	14
Bloomberg Ticker	TEEC IN
Market Cap. (Rs bn)	42.5
Free Float (%)	42
Shares O/S (mn)	114

**BUY** 

Target Price: Rs431

### Strong Performance Continues; Maintain BUY

Techno Electric & Engineering (TEEC) has reported a strong performance in 1QFY18. Its PAT surged by 48.7% YoY to Rs690mn, as execution of several projects was advanced in view of GST roll-out. Driven by robust EPC business, TEEC's net sales rose by 52.2% YoY to Rs4.1bn. We continue to remain positive on TEEC owing to its presence across entire power sector value chain and robust revenue visibility backed by strong order book and lower execution risks. **Considering strong order book, likely ramp-up in T&D capex, robust FCF generation and high EBITDA margins, we maintain our BUY recommendation with an unrevised Target Price of Rs431.**

#### Better Segmental Performance – EPC Revenue Surges to Rs3.68bn

EPC revenue grew by 59.3% YoY to Rs3.68bn, while segmental EBIT margin increased by 190bps YoY to 16.4% owing to strong execution, as the execution of several projects was advanced in the run-up to GST roll-out. As the billing for the same was made during the quarter itself, the Management does not expect any delay in receivables owing to GST roll-out. Energy (Power) revenue rose by 10.7% YoY to Rs441mn. Revenue from Wind business grew by 14.4% YoY to Rs47mn owing to higher grid availability and improved PLF and the segmental EBIT margin improved significantly to 74.0% in 1QFY18 from 59.9% in 1QFY17.

#### Margins Decline Marginally; Profit Zooms

TEEC's overall margins declined by 160bps YoY to 24.6% partly owing to 13.7% YoY rise in employee cost. Reported profit surged by 48.7% YoY to Rs690mn on the back of 7.1% YoY decline in finance cost and better execution.

#### Current Order Book at Rs25.1bn; Eyes on FGD Segment

TEEC secured orders worth Rs5.5bn in 1QFY18, as it managed to convert L1 positions during the quarter. Expecting execution and ordering to be minuscule in 2QFY18, the Management stated that the execution would pick-up pace from 3QFY18 onwards, as the clients are still assessing the impact of GST. As TEEC expects robust ordering from FGD segment, it is striving to get orders to be tendered by the thermal power companies. Though its current order book declined by 4% YoY to Rs25.1bn given the bid pipeline, the Management expects better order inflow in next 3-6 six months and looks forward to 15-20% revenue growth in FY18.

#### Outlook & Valuation

We believe that likely ramp-up in overall investment in T&D space augurs well for TEEC's EPC business, while prudent capital allocation with synergy from project business will boost its profitability. **Valuing EPC business at 18x FY19E EPS, Wind business at 0.8x equity book value, BOOT projects at 1.3-1.5x equity book value and cash at 1.0x book value, we maintain our BUY recommendation on the stock with an SOTP-based Target Price of Rs431.**

Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Net sales	10,972	13,567	17,579	20,944
PAT	1,406	1,897	2,356	2,851
EPS (Rs)	12.3	16.6	20.6	25.0
PE (x)	30.6	22.7	18.3	15.1
EV/EBITDA (x)	19.6	12.6	10.5	8.6
Book value (Rs/share)	88.8	97.0	115.6	138.5
P/BV (x)	4.2	3.9	3.3	2.7
ROCE	17.7	21.3	20.4	21.0
RONW	13.9	17.1	17.8	18.0

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(2.0)	(6.2)	18.2
Relative to Nifty	(2.7)	(11.2)	4.0

Shareholding Pattern (%)	Mar'17	Jun'17
Promoter	58.0	58.8
Public	42.0	41.3

#### 1 Year Stock Price Performance



Note: \* CMP as on August 17, 2017

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**Risks to the View**

- ▶ Significant delay in project execution.
- ▶ Increased working capital requirement in the event of delayed receivables.

**Exhibit 1: Quarterly Performance**

(Rs mn)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)
<b>Net Sales</b>	<b>4,123</b>	<b>2,709</b>	<b>52.2</b>	<b>3,619</b>	<b>13.9</b>
Other op income	-	-		-	
<b>Total Income</b>	<b>4,123</b>	<b>2,709</b>	<b>52.2</b>	<b>3,619</b>	<b>13.9</b>
Operating Costs	3,107	1,998	55.5	3,075	1.0
<b>EBIDTA</b>	<b>1,016</b>	<b>712</b>	<b>42.8</b>	<b>544</b>	<b>86.7</b>
EBIDTA Margin (%)	24.6	26.3%		15.0	
Other Income	114	82	38.4	304	(62.5)
Interest	86	92	(7.1)	76	13.0
Depreciation	106	133	(20.2)	110	(3.7)
<b>Profit Before Tax</b>	<b>939</b>	<b>569</b>	<b>64.9</b>	<b>662</b>	<b>41.7</b>
Tax	245	84	190.4	367	(33.2)
Tax Rate (%)	26.1	14.8		55.4	
Exceptional items	0.00	(4.5)		0.0	
<b>Reported PAT</b>	<b>690</b>	<b>480</b>	<b>43.8</b>	<b>333</b>	<b>107.5</b>
Share of profit/Loss associates		16		(4)	
Extraordinary				2	
<b>Adj. PAT</b>	<b>690</b>	<b>464</b>	<b>48.7</b>	<b>335</b>	<b>106.3</b>

Source: Company, RSec Research

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**Profit & Loss Statement**

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
<b>Net sales</b>	<b>10,972</b>	<b>13,567</b>	<b>17,579</b>	<b>20,944</b>
% yoy change	38.2	23.7	29.6	19.1
<b>RM cost</b>	<b>(317)</b>	<b>377</b>	<b>(264)</b>	<b>(314)</b>
<b>Employee expenses</b>	<b>302</b>	<b>346</b>	<b>492</b>	<b>586</b>
<b>Other expenses</b>	<b>8,768</b>	<b>9,719</b>	<b>13,729</b>	<b>16,378</b>
Total operating expenditure	8,754	10,442	13,958	16,650
<b>EBITDA</b>	<b>2,218</b>	<b>3,125</b>	<b>3,621</b>	<b>4,293</b>
<b>EBITDA margin (%)</b>	<b>20.2</b>	<b>23.0</b>	<b>20.6</b>	<b>20.5</b>
Depreciation	495	508	535	550
<b>EBIT</b>	<b>1,724</b>	<b>2,617</b>	<b>3,086</b>	<b>3,743</b>
Other income	629	492	282	245
Interest costs	458	373	224	183
<b>PBT</b>	<b>1,894</b>	<b>2,735</b>	<b>3,144</b>	<b>3,805</b>
Taxes	487	837	786	951
Minority interest	1.6	2.00	2.50	3.00
<b>PAT</b>	<b>1,406</b>	<b>1,897</b>	<b>2,356</b>	<b>2,851</b>
% yoy change	33.8	34.9	24.2	21.0

**Balance Sheet**

Y/E March (Rs mn)	FY16	FY17E	FY18E	FY19E
<b>Share capital</b>	<b>114</b>	<b>228</b>	<b>228</b>	<b>228</b>
Reserves & Surplus	10,031	10,842	12,969	15,591
Total shareholder's funds	10,145	11,070	13,197	15,820
Secured loans	3,068	2,099	1,868	1,668
Total borrowings	3,068	2,099	1,868	1,668
Other long term liabilities	83	195	225	243
Deferred tax liability	8	1,222	1,222	1,222
<b>Capital employed</b>	<b>13,304</b>	<b>14,587</b>	<b>16,512</b>	<b>18,953</b>
Gross Block	11,106	9,856	10,756	12,356
Accumulated Depreciation	2,861	3,368	3,903	4,453
Net Block	8,246	6,487	6,852	7,902
Capital Work in Progress	-	-	110	75
Investments (non current)	623	789	789	789
Current investment	924	3,871	3,871	3,871
Inventories	379	2	400	375
Sundry Debtors	4,963	5,596	6,761	7,757
Cash and Bank	1,116	1,032	2,359	3,131
Loans and Advances	1,049	805	1,231	1,466
Other Current Assets	1,237	481	881	1,231
Total Current Assets	9,668	11,787	15,503	17,830
Current liabilities	5,051	4,432	6,693	7,590
Provision	181	45	49	54
Total current liabilities	5,232	4,476	6,742	7,644
<b>Capital Deployed</b>	<b>13,304</b>	<b>14,587</b>	<b>16,512</b>	<b>18,953</b>

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**Cash Flow Statement**

Y/E March (Rs mn)	FY16	FY17E	FY18E	FY19E
PBT	1,894	2,735	3,144	3,805
Depreciation	495	508	535	550
Interest provided	458	373	224	183
Operating CF before WC requirement	2,847	3,617	3,903	4,538
Change in working capital	2,006	2,606	96	639
Tax Paid	487	837	786	951
<b>Operating cash flow</b>	<b>354</b>	<b>174</b>	<b>3,021</b>	<b>2,948</b>
FCF	2,778	1,424	2,011	1,383
Capex	(2,424)	(1,251)	1,010	1,565
Investments	243	166	-	-
<b>Investing cash flow</b>	<b>2,181</b>	<b>1,084</b>	<b>(1,010)</b>	<b>(1,565)</b>
Issue/repayment of debt	(899)	(969)	(231)	(200)
Dividends paid	309	-	228	228
Interest paid	(458)	(373)	(224)	(183)
<b>Financing cash flow</b>	<b>(1,666)</b>	<b>(1,342)</b>	<b>(684)</b>	<b>(612)</b>
<b>Opening cash balance</b>	<b>247</b>	<b>1,116</b>	<b>1,032</b>	<b>2,359</b>
<b>Net change in cash</b>	<b>869</b>	<b>(84)</b>	<b>1,327</b>	<b>771</b>
<b>Closing cash balance</b>	<b>1,116</b>	<b>1,032</b>	<b>2,359</b>	<b>3,131</b>

**Key Ratios**

Y/E March (%)	FY16	FY17E	FY18E	FY19E
EBITDA margins	20.2	23.0	20.6	20.5
PBT margins	17.3	20.2	17.9	18.2
PAT margins	12.8	14.0	13.4	13.6
ROCE	17.7	21.3	20.4	21.0
RONW	13.9	17.1	17.8	18.0
Debt/Equity Ratio (x)	0.3	0.2	0.1	0.1
PE (x)	30.6	22.7	18.3	15.1
PB (x)	4.2	3.9	3.3	2.7
EV/EBITDA (x)	19.6	12.6	10.5	8.6
EV/Sales (x)	4.0	2.9	2.2	1.8

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### Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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