

Institutional Equity Research

Techno Electric & Engg.

Capital Goods | India

3QFY18 Result Update | February 16, 2018

CMP (Rs)	368
Upside/ (Downside) (%)	27
Bloomberg Ticker	TEEC IN
Market Cap. (Rs bn)	41.4
Free Float (%)	41.3
Shares O/S (mn)	114

BUY 

Target Price: Rs469

GST Transition Drags Quarterly Performance; Maintain BUY

Techno Electric & Engineering (TEEC) continued to report a weak performance in 3QFY18, with its consolidated revenue declining by 15.4% YoY to Rs3.0bn led by 15.4% YoY decline in EPC and Wind business. Its net profit grew by a muted 7% YoY to Rs434mn. However, we continue to remain positive on TEEC on the back of 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 and rolling over our estimates to FY20E, we maintain our BUY recommendation on the stock with a revised Target Price of Rs469 (from Rs431 earlier).**

Consolidated Revenue Declines on Weak EPC & Energy Biz

Consolidated revenue dipped by 15.4% YoY to Rs3.0bn owing to subdued EPC business led by GST transition marked with front-loaded execution in 1QFY18. Wind business revenue was impacted due to lower wind capacity (due to sale of its assets 30MW) and heavy rains in TN. Slower execution – which also impacted EPC revenue – is likely to pick-up over next few quarters.

Overall Margin Improves Substantially; Marginal Growth in PAT

Its overall margin improved by 332bps YoY to 24.4% in 3QFY18. While EBITDA margin in EPC business expanded by 292bps YoY to 18.0%, EBITDA margin in Wind business surged by 930bps YoY to 52%. EBITDA from EPC and Wind business stood at Rs495mn and Rs135mn, respectively. EBITDA from Corporate segment decreased to Rs17mn in 3QFY18 vs. Rs49mn in 3QFY17. Its net profit grew by 7% YoY to Rs434mn mainly on the back of improved operating performance, lower interest cost (-51.2% YoY) and lower tax outgo of 28% (vs. 31.5% in 3QFY17).

Current Order Book at Rs24bn; Eyes on FGD Segment

TEEC secured orders worth Rs5.5bn in 3QFY18 (9MFY18 order book at Rs12bn). Outstanding order book of Rs24bn as of Dec'17-end and LI position of Rs3bn provide a healthy revenue visibility for next two years. Expecting to secure order worth ~Rs14-15bn in FY18E, the Management looks forward to order intake of Rs25bn in FY19E. Expecting robust ordering from FGD segment, TEEC is striving to get orders, which are expected to be tendered by thermal power companies.

Outlook & Valuation

We continue to 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, going forward. **Valuing EPC business at 18x FY20E EPS, Wind business at equity book value, BOOT projects at 1.3-1.5x equity book value and cash at 1.0x book value and rolling over our estimates to FY20E, we maintain our BUY recommendation on the stock with a revised Target Price of Rs469 (from Rs431 earlier).**

Key Financials (Rs mn)	FY17	FY18E	FY19E	FY20E
Net sales	13,567	14,678	16,996	20,102
PAT	1,897	1,983	2,401	2,869
EPS (Rs)	16.6	17.4	21.0	25.1
PE (x)	22.2	21.3	17.5	14.7
EV/EBITDA (x)	12.3	12.1	10.3	8.8
Book value (Rs/share)	97.0	112.3	131.3	154.5
P/BV (x)	3.8	3.3	2.8	2.4
ROCE	21.3	18.1	19.2	19.8
RONW	17.1	15.5	16.0	16.3

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(6.3)	(3.4)	0.2
Relative to Nifty	(4.6)	(3.4)	(19.5)

Shareholding Pattern (%)	Sep'17	Dec'17
Promoter	58.8	58.8
Public	41.3	41.3

1 Year Stock Price Performance



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Risks to the View

- ▶ Any significant delay in project execution.
- ▶ Higher working capital requirement in the event of delayed receivables.

Exhibit 1: Quarterly Performance

(Rs mn)	3QFY18	3QFY17	YoY(%)	2QFY18	QoQ (%)	9MFY18	9MFY17	yoy
Net Sales	3,015	3,563	(15.4)	2,542	18.6	9,680	9,948	(2.7)
Total Income	3,015	3,563	(15.4)	2,542	18.6			
Operating Costs	2,279	2,812	(18.9)	1,774	28.5	7,160	7,370	(2.8)
EBIDTA	736	751	(2.0)	768	(4.2)	2,520	2,578	(2.3)
EBIDTA Margin (%)	24.4	21.1		30.2		26.0	25.9	
Other Income	17	49	(64.6)	109	(84.1)	240	188	28.0
Interest	39	80	(51.2)	60	(35.1)	185	298	(38.0)
Depreciation	106	133	(20.4)	106	(0.5)	318	398	(20.2)
Profit Before Tax	608	587	3.6	711	(14.4)	2,258	2,070	9.1
Tax	170	185	(8.0)	106	60.0	522	470	11.2
Tax Rate (%)	28.0	31.5		15.0		23.1	22.7	0.0
Exceptional items	0.00			0.0		0.0	2.9	(1.0)
Share of profit/Loss associates	(3.7)	3.74		(3.6)		(10.4)	(8.4)	
Extraordinary		0.0		2		0	2.918	
Rep PAT	434	406	7.0	601	(27.7)	1,725	1,595	8.2

Source: Company, RSec Research

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Profit & Loss Statement

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
Net sales	13,567	14,678	16,996	20,102
% yoy change	23.7	8.2	15.8	18.3
RM cost	377	(220)	(255)	(101)
Employee expenses	346	411	476	563
Other expenses	9,719	11,390	13,206	15,458
Total operating expenditure	10,442	11,581	13,427	15,920
EBIDTA	3,125	3,097	3,569	4,181
EBIDTA margin (%)	23.0	21.1	21.0	20.8
Depreciation	508	535	550	565
EBIT	2,617	2,562	3,019	3,616
Other income	492	365	377	382
Interest costs	373	280	190	168
PBT	2,735	2,647	3,206	3,830
Taxes	837	662	801	958
Minority interest	2.00	2.50	3.00	3.50
PAT	1,897	1,983	2,401	2,869
% yoy change	34.9	4.5	21.1	19.5

Balance Sheet

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
Liabilities				
Share capital	228	228	228	228
Reserves & Surplus	10,842	12,596	14,769	17,410
Total shareholder's funds	11,070	12,824	14,998	17,638
Secured loans	2,099	1,868	1,268	1,118
Other long term liabilities	195	225	243	196
Deferred tax liability	1,222	1,222	1,222	1,222
Minority interest				
Capital employed	14,587	16,139	17,730	20,175
Assets				
Net Block + CWIP	6,487	7,202	8,377	9,677
Investments (non current)	789	789	789	789
Net Current Assets:				
Current investment	3,871	3,871	3,871	3,871
Inventories	2	400	375	455
Sundry Debtors	5,596	5,871	6,295	7,445
Cash and Bank	1,032	1,896	1,993	1,824
Loans and Advances	805	1,174	1,360	2,010
Other Current Assets	481	881	1,231	1,631
Total Current Assets	11,787	14,093	15,124	17,236
Total current liabilities	4,476	5,945	6,560	7,528
Capital Deployed	14,587	16,139	17,730	20,175

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Cash Flow Statement

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
PBT	2,735	2,647	3,206	3,830
Depreciation	508	535	550	565
Interest provided	373	280	190	168
Opex of before WC requirement	3,617	3,462	3,946	4,563
Change in working capital	2,606	(54)	304	1,363
Tax Paid	837	662	801	958
Operating cash flow	174	2,854	2,841	2,242
FCF	1,424	1,604	1,116	377
Capex	(1,251)	1,250	1,725	1,865
Investments	166	-	-	-
Investing cash flow	1,084	(1,250)	(1,725)	(1,865)
Issue/repayment of debt	(969)	(231)	(600)	(150)
Dividends paid	-	228	228	228
Interest paid	(373)	(280)	(190)	(168)
Financing cash flow	(1,342)	(740)	(1,019)	(546)
Opening cash balance	1,116	1,032	1,896	1,993
Net change in cash	(84)	864	97	(169)
Closing cash balance	1,032	1,896	1,993	1,824

Key Ratios

Y/E March	FY17	FY18E	FY19E	FY20E
EBITDA margins (%)	23.0	21.1	21.0	20.8
PBT margins (%)	20.2	18.0	18.9	19.1
PAT margins (%)	14.0	13.5	14.1	14.3
ROCE (%)	21.3	18.1	19.2	19.8
RONW (%)	17.1	15.5	16.0	16.3
Debt/Equity Ratio (x)	0.2	0.1	0.1	0.1
PE (x)	22.2	21.3	17.5	14.7
PB (x)	3.8	3.3	2.8	2.4
EV/EBITDA (x)	12.3	12.1	10.3	8.8

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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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