

Institutional Equity Research

Techno Electric & Engg.

Capital Goods | India

4QFY18 Result Update | May 31, 2018

CMP* (Rs)	308
Upside/ (Downside) (%)	41
Bloomberg Ticker	TEEC IN
Market Cap. (Rs bn)	35
Free Float (%)	42
Shares O/S (mn)	114

BUY 

Target Price: Rs435

Slower Execution Drags Performance; Maintain BUY

Techno Electric & Engineering (TEEC) continued to report a weak performance in 4QFY18. Its consolidated revenue fell by 9.8% YoY to Rs3.2bn owing to 8.1% YoY decline in EPC business, which contributes 97% to its total sales, while PAT remained flat at Rs334mn (+0.4% YoY). Notably, other income declined by 57% YoY to Rs129mn, as last year it benefited from sale of wind asset and dividend income from subsidiaries. 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. Strong order book, likely ramp-up in T&D capex, robust FCF generation and high EBITDA margins continue to augur well for TEEC, in our view. **Maintaining our BUY recommendation on the stock, we downwardly revise Target Price to Rs435 (from Rs469 earlier) on account of lower execution.**

Muted Revenue on Slower Execution

Led by 8.1% YoY decline in EPC business (which contributes 97% to its total sales) due to GST transition marked with front-loaded execution in 1QFY18, TEEC's consolidated revenue declined by 9.8% YoY to Rs3.2bn. Revenue from Wind business was impacted due to lower wind capacity (due to sale of its 30MW asset) and heavy rains in Tamil Nadu. Though slower execution impacted EPC revenue in 4QFY18, we expect execution to pick up over the next few quarters.

Slower Execution & Higher Cost Impact Margin; PAT Remains Flat

TEEC's overall margins contracted by 213bps YoY to 15.0% in 4QFY18 due to slower execution and rising commodity prices. While EPC business reported Rs440mn EBITDA, the segmental margin fell by 40bps YoY to 13.4%. Further, wind business reported negative EBITDA of Rs125mn (vs. positive EBITDA of Rs174 mn in 4QFY17) owing to lower wind capacity (due to sale of its 30MW asset) and heavy rains in Tamil Nadu. EBITDA from Corporate segment significantly improved to Rs129mn vs. Rs70mn in 4QFY17 on execution of better-margins projects. TEEC's interest cost fell by 32.8% YoY to Rs75mn owing to higher collection of retention money and reduction of consolidated debt to Rs.670mn (from Rs3bn).

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 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 a revised Target Price of Rs435 (from Rs469 earlier).**

Key Financials (Rs mn)	FY17	FY18E	FY19E	FY20E
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)	18.2	17.1	14.6	12.3
EV/EBITDA (x)	10.1	10.4	8.2	6.5
Book value (Rs/share)	88.8	97.0	115.6	138.5
P/BV (x)	3.2	2.8	2.4	2.0
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	(12.0)	(16.5)	(23.4)
Relative to Nifty	(12.1)	(18.1)	(34.6)

Shareholding Pattern (%)	Mar'18	Dec'17
Promoter	58.8	58.8
Public	42.3	42.3

1 Year Stock Price Performance



Note: * CMP as on May 31, 2018

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Current Order Book Remains Strong at Rs20bn

With fresh orders worth Rs623mn in 4QFY18, TEEC's order book stood at Rs.20.2bn as of FY18-end. Further, it received orders worth Rs2bn (Rs1.1bn order from Afghanistan and Rs.900mn from Andhra Pradesh) in 1QFY19 (YTD). Looking ahead, the Management expects order inflow of Rs15-16bn in FY19E, majority of which is expected to be secured in 2HFY19.

Key Guidance

Maintaining the outlook for EPC margin at >15%, the Management looks forward to 10% revenue growth in FY19E. Though domestic T&D space is expected to witness some slowdown due to lower PGCIL ordering, tendering from SEBs i.e. AP/Telangana and TN are picking-up. TEEC sees increased traction in international T&D business in countries i.e. Afghanistan, Bangladesh, Kenya and Nepal. As per the Management, FGD orders are taking longer time to roll out due to delayed decision making by the thermal power utilities.

Risks to the View

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

Exhibit 1: Quarterly Performance

(Rs mn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)
Net Sales	3,264	3,619	(9.8)	3,015	8.3
Total Income	3,264	3,619	(9.8)	3,015	8.3
Operating Costs	2,843	3,075	(7.6)	2,279	24.7
EBITDA	421	544	(22.6)	736	(42.7)
EBITDA Margin (%)	12.9	15.0		24.4	
Other Income	129	304	(57.4)	17	646.9
Interest	51	76	(32.8)	39	30.6
Depreciation	106	110	(3.4)	106	0.4
Profit Before Tax	394	662	(40.6)	608	(35.3)
Tax	125	367	(65.9)	170	(26.5)
Tax Rate (%)	31.8	55.4		28.0	
Exceptional items	0.00			0.0	
Share of profit/Loss associates	65.20	37.23		(3.73)	
Extraordinary		0.0		2	
Rep PAT	334	333	0.4	434	(23.1)

Source: Company, RSec Research

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Profit & Loss Statement

Y/E March (Rs mn)	FY17	FY18	FY19E	FY20E
Net sales	13,567	12,944	14,926	17,484
% yoy change	23.7	-4.6	15.3	17.1
RM cost	377	(76)	(224)	(87)
Employee expenses	346	388	418	490
Other expenses	9,719	9,691	11,329	13,078
Total operating expenditure	10,442	10,003	11,523	13,480
EBITDA	3,125	2,941	3,403	4,004
Depreciation	508	424	550	565
EBIT	2,617	2,517	2,853	3,439
Other income	492	370	377	382
Interest costs	373	235	101	90
PBT	2,735	2,652	3,129	3,731
Taxes	837	647	782	933
Tax rate (%)	30.6	24.4	25.0	25.0
Minority interest	28.81	54.78	54.78	54.78
Reported PAT	1,927	2,059	2,402	2,853
% yoy change	37.1	6.8	16.6	18.8
EPS	16.9	18.0	21.0	25.0

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Balance Sheet

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
Liabilities				
Share capital	228	225	225	225
Reserves & Surplus	10,842	12,295	14,471	17,098
Total shareholder's funds	11,070	12,520	14,696	17,324
Secured loans	2,099	224	224	224
Other long term liabilities	195	333	360	196
Deferred tax liability	1,036	1,116	1,116	1,116
Capital employed	14,401	14,194	16,396	18,861
Assets				
Gross Block	9,837	9,840	10,740	11,840
Accumulated Depreciation	3,368	3,792	4,342	4,907
Net Block	6,468	6,047	6,397	6,932
Investments (non current)	789	839	839	839
Net Current Assets:				
Current investment	3,871	3,665	3,665	3,665
Inventories	2	78	375	455
Sundry Debtors	6,129	7,578	5,528	6,475
Cash and Bank	1,000	418	3,024	4,696
Loans and Advances	33	33	33	33
Other Current Assets	1,118	725	1,075	1,475
Total Current Assets	12,153	12,498	13,700	16,800
Current Liabilities & Provisions:				
Current liabilities	4,965	5,134	4,484	5,654
Provision	45	56	56	56
Total current liabilities	5,010	5,191	4,540	5,710
Net Current Assets	7,144	7,307	9,160	11,087
Capital Deployed	14,401	14,194	16,396	18,861

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Cash Flow Statement

Y/E March (Rs mn)	FY17	FY18E	FY19E	FY20E
PBT	2,735	2,652	3,129	3,731
Depreciation	508	424	550	565
Interest provided	373	235	101	90
Other non-cash adjustments	(774)	(381)		
Operating CF before WC requirement	2,843	2,930	3,780	4,386
Change in working capital	1,655	472	(834)	365
Tax Paid	837	647	782	933
Operating cash flow	351	1,810	3,832	3,088
Capex	(1,270)	3	900	1,100
Investments	166	50	-	-
Investing cash flow	1,103	(52)	(900)	(1,100)
Issue/buyback of equity		(3)	-	
Issue/repayment of debt	(969)	(1,875)	-	-
Dividends paid	228	228	228	228
Interest paid	(373)	(235)	(101)	(90)
Financing cash flow	(1,570)	(2,339)	(326)	(315)
Opening cash balance	1,116	1,000	418	3,024
Net change in cash	(116)	(581)	2,606	1,672
Closing cash balance	1,000	418	3,024	4,693

Key Ratios

Y/E March (%)	FY17	FY18E	FY19E	FY20E
EBITDA margins	23.0	22.7	22.8	22.9
PBT margins	20.2	20.5	21.0	21.3
PAT margins	14.2	15.9	16.1	16.3
ROCE	21.6	20.3	19.7	20.3
RONW	17.4	16.4	16.3	16.5
Debt/Equity Ratio (x)	0.2	0.0	0.0	0.0
PE (x)	18.2	17.1	14.6	12.3
PB (x)	3.2	2.8	2.4	2.0
EV/EBITDA (x)	10.1	10.4	8.2	6.5
EV/Sales (x)	2.3	2.4	1.9	1.5

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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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