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Asian Markets Securities Pvt. Ltd.

Institutional Research

Techno Electric & Engineering Limited

BUY

Strong EBITM in EPC reported amid Lower sales due to GST.....

CMP (Rs)	**365**
Target (Rs)	**484**

Nifty: 10,540; Sensex: 34,300

Key Stock Data

BSE Code	533281
NSE Code	TECHNO
Bloomberg Code	TEEC IN
Shares o/s mn (FV Rs 2)	112.7
Market Cap (Rs bn)	41.1
52-Week High / Low	439/312
3-M Daily Avg. Vol.	1,63,634

Relative Performance

(%)	1m	3m	12m
TEEC	(11.0)	(4.0)	(1.4)
NIFTY	(1.3)	2.1	19.9
SENSEX	(0.8)	3.0	21.1

Shareholding Pattern

(%)	Jun17	Sep17	Dec17
Promoter	58.8	58.8	58.8
FII	4.9	4.6	4.1
DII	17.8	17.5	18.1
Others	36.0	36.7	36.5

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Techno Electric & Engineering Co Ltd. (TEEC) reported 3QFY18 results in line with our estimates with PAT of Rs434mn registering growth of 6.8% yoy. However consolidated revenue declined by 15.4% yoy at Rs 3.02bn, as EPC revenue declined by 15.4% yoy due to GST accounting and Power segment due to lower capacity yoy. Consolidated EBITDA declined by 2.0% yoy, whereas EBITDAM improved by 332bp, came in higher than our estimate mainly led by high EBITM in both EPC and wind segments. The current order book stands healthy at Rs24bn (1.8x book-to-bill) and has a strong bidding pipeline. The management continues to be positive on EPC segment in the medium term and guiding FY19 EPC revenue growth of 15% and EBITDAM will improve by 100bp. Further, it is targeting an order inflow of over Rs25 bn in FY19 owing to strong outlook from FGDs, Solar EPC Industrial capex and Power T&D. It has reduced its gross debt by ~Rs2bn in 3QFY18. Given the strong order book, high EBITDA margins, efficient working capital management, T&D assets and strong and consistent free cash flow generation, we believe the business continues to be attractive. We maintain BUY with TP of Rs484. We value TEEC on SOTP basis valuing EPC at 20x FY20E earnings (Rs415), wind business at DCF (Rs60) and the transmission BOT assets on the basis of BV (Rs9).

3QFY18 revenue declined whereas EBITM improved due to GST accounting: Consolidated net sales stood at Rs 3.01bn declined by 15.4% yoy on the back of 15.4% decline in EPC segment. EPC sales decline primarily due to GST accounting. Consolidated EBITDA declined by 2.0% yoy to Rs 736mn in Q3FY18. EBITDAM improved by 332bp yoy to 24.4% yoy due to higher EPC and wind EBITM. Adjusted PAT stood at Rs434mn up by 6.8% yoy; due to lower interest. Cash utilized in repayment of ~Rs2bn of debt lead to lower other income. In 9MFY18, consolidated Sales decreased by 2.7% yoy to Rs6.68bn and EBITDM stand at 26.0%. APAT grew by 8.3% yoy to Rs1.73bn and PATM stand at 17.4%.

Segment Wise Performance in Q3FY18: EPC reported 15.4% yoy declined in EPC revenues due to accounting treatment of tax in GST impacting revenue by 10%+ negatively, While EPC EBITM improved by 290bp yoy to 18.0% Vs 15.1%, EBITM improved to certain extent because of GST along with efficiency improvement and project mix. Wind segment revenue in 3QFY18 is down by 15% yoy to Rs259mn, Revenue came in lower on account of lower capacity by selling 33MW of wind assets & impacted due to unexpected rain in Tamilnadu during Nov & Dec months. Corporate segment reported sales decreased by 64.6% yoy to Rs17mn, due to higher debt repayment impacting the cash balance. In 9MFY18, EPC revenue down by 1% to Rs8.45bn and EBITM improved by 116bp to 16.2%. Wind revenue down by 12.9% to Rs 1.23mn and EBITM stand at 68.1%.Company maintains its guidance of flat revenue in FY18, 15% in FY19 along with order inflow of over Rs25bn in FY19. It also expects EBITM to improve by 100bp yoy.

Decent order book and pipeline: TEEC firm order book orders stands at Rs24bn. The current order book reflects ~1.8x book-to-bill ratio suggesting visibility and growth in next two years. Management targeting over Rs25bn of order inflow in FY19; whereas FY18 may remain muted due to GST issues. We have factored in inflow of Rs17.9/18.8bn in FY19/20E. SEB order pipeline remains strong from states like Andra Pradesh, Tamilnadu, J&K, Rajasthan, MP & Orissa; apart from NTPC (FGD), PGCIL and private industry's firm inflow outlook.

New business opportunity to drive growth in long term: Apart from the regular orders in T&D from PGCIL and SEBs, TEEC is upbeat about new order inflows from Pollution control systems in Power Generation, Solar power EPC and industrial capex in refinery and aluminum space. In next 5 year; EPC T&D capex needed in country is Rs2.6tn and new emission control norms provide ~Rs1tn opportunity for SOX/NOX/ESP. Solar EPC is another growth area with NTPC floating tenders for ~133MW of solar plant. Management is Expecting order inflow of ~Rs10bn from new business opportunities in FY19.

Outlook and Valuations: We have conservatively factored in 10% revenue CAGR with 15% EBITM for EPC segment during FY17-20E, whereas for wind power we factored in a 24% PLF going forward. The stock is trading at 19.8x/16.8x/14.5x in FY18/19/20E respectively. Given the strong EPC business, one of the most efficient EPC players, sizable cash balance, new business opportunities, wind power assets and potential sale of the assets, value accretive BOOT assets in power T&D side and positive free cash flows; we remain positive on the business. We reiterate BUY with a SOTP PT of Rs484; valuing EPC at 20x FY20E earnings, wind business at DCF and the transmission BOT assets on the basis of BV.

Exhibit 1: Key Financials (Consolidated)

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Sales	10,972	13,567	13,443	14,788	17,389
yoy (%)	*38.2*	*23.7*	*(0.9)*	*10.0*	*17.6*
EBITDA	2,206	3,125	2,899	3,161	3,455
yoy (%)	*4.3*	*41.6*	*(7.2)*	*9.1*	*9.3*
Adjusted PAT	1,043	2,024	2,072	2,441	2,814
yoy (%)	*10.8*	*61.3*	*9.1*	*17.8*	*15.3*
Equity	114	228	225	225	225
EPS	10.3	18.0	18.4	21.7	25.0

Source: Company, AMSEC Research

Exhibit 2: Key Ratios

Y/E Mar	FY16	FY17	FY18E	FY19E	FY20E
EBITDAM (%)	20.1	23.0	21.6	21.4	19.9
NPM (%)	10.2	14.6	15.0	16.1	15.7
Adjusted PER (x)	70.5	20.2	19.8	16.8	14.5
P/BV (x)	2.2	3.7	3.4	2.9	2.5
EV/Sales (x)	2.1	2.9	2.7	2.3	1.9
EV/ EBITDA (x)	10.5	12.4	12.6	11.0	9.5
Core RoACE (%)	8.1	15.6	21.5	24.7	27.0
Core RoANW (%)	13.8	30.9	28.8	29.1	31.2

Exhibit 3: Quarterly snapshot (Consolidated)

P&L (Rs mn)	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	yoy(%)	qoq (%)	9MFY17	9MFY18	yoy (%)
Net Sales	**3,563**	**3,619**	**4,123**	**2,542**	**3,015**	***(15.4)***	***18.6***	**9,948**	**9,680**	***(2.7)***
Cons of Raw Materials	2,560	2,745	2,793	1,483	1,982	*(22.6)*	*33.7*	6,579	6,258	*(4.9)*
Employee Cost	76	97	82	103	94	*23.9*	*(7.9)*	249	279	*12.2*
Other Expenditure	176	233	232	189	203	*15.3*	*7.3*	542	623	*15.0*
Total Expenditure	2,812	3,075	3,107	1,774	2,279	*(18.9)*	*28.5*	7,370	7,160	*(2.8)*
EBITDA	**751**	**544**	**1,016**	**768**	**736**	**(2.0)**	**(4.2)**	**2,578**	**2,520**	**(2.3)**
Add: Other Income	49	70	114	109	17	*(64.6)*	*(84.1)*	188	240	*28.0*
Interest	80	76	86	60	39	*(51.2)*	*(35.1)*	298	185	*(38.0)*
Depreciation	133	110	106	106	106	*(20.4)*	*(0.5)*	398	318	*(20.2)*
Exceptional item	(3)	233	-	-	-	*(100.0)*	-	(3)	-	*(100.0)*
Profit Before Tax	**590**	**662**	**939**	**711**	**608**	***3.1***	***(14.4)***	**2,073**	**2,258**	***8.9***
Provision for Taxation	185	367	245	106	170	*(8.0)*	*60.0*	470	522	*11.2*
Reported PAT	**405**	**295**	**693**	**604**	**438**	**8.2**	**(27.5)**	**1,603**	**1,736**	**8.3**
Minority Interest	-	-	-	-	-	-	-	-	-	
Share of profit /loss of associates	4	37	(3)	(4)	(4)			(8)	(10)	
Adjusted PAT	**407**	**429**	**690**	**601**	**434**	**6.8**	**(27.7)**	**1,593**	**1,725**	**8.3**
Equity Capital (FQ Rs 2)	228	228	225	225	225			228	225	
Basic EPS (In Rs.)	**3.5**	**2.6**	**6.2**	**5.4**	**3.9**			**14.0**	**15.4**	
Adjusted EPS (In Rs.)	**3.6**	**3.8**	**6.1**	**5.3**	**3.9**			**13.9**	**15.3**	
EBITDA (%)	21.1	15.0	24.6	30.2	24.4	*332bp*	*(581bp)*	25.9	26.0	*12bp*
PAT (%)	12.7	13.1	18.1	26.9	16.6	*387bp*	*(1027bp)*	15.7	17.4	*168bp*
Tax / PBT (%)	31.4	55.4	26.1	15.0	28.0	*(338bp)*	*1301bp*	22.7	23.1	*47bp*
Raw Mat / Net Sales (%)	71.8	75.9	67.7	58.3	65.7	*(610bp)*	*742bp*	66.1	64.6	*(149bp)*
Emp Cost/Net Sales (%)	2.1	2.7	2.0	4.0	3.1	*99bp*	*(90bp)*	2.5	2.9	*38bp*
Other Exp/Net Sales (%)	4.9	6.4	5.6	7.4	6.7	*179bp*	*(71bp)*	5.4	6.4	*99bp*

Source: Company, AMSEC Research

Exhibit 4: Quarterly segment (Consolidated)

Segment	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	yoy(%)	qoq (%)	9MFY17	9MFY18	yoy (%)
Revenue										
EPC (Construction)	3,258	3,572	3,681	2,014	2,756	*(15.4)*	*36.9*	8538	8452	*(1.0)*
Energy (Power)	304	47	442	528	259	*(14.9)*	*(51.0)*	1410	1228	*(12.9)*
Corporate	49	70	114	109	17	*(64.6)*	*(84.1)*	188	240	*28.0*
Total	**3611**	**3690**	**4237**	**2651**	**3032**	***(16.0)***	***14.4***	**10136**	**9920**	***(2.1)***
EBIT										
EPC (Construction)	491	494	604	266	495	*0.9*	*85.9*	1280	1365	*6.7*
Energy (Power)	130	(59)	307	395	135	*3.6*	*(65.9)*	903	837	*(7.3)*
Corporate	49	70	114	109	17	*(64.7)*	*(84.2)*	*188*	240	28.0
Total	**670**	**505**	**1,024**	**771**	**647**			**2,370**	**2,442**	**3.0**
Sales Growth (%, y-y)										
EPC (Construction)	4.2	11.0	59.3	-32.2	-15.4			23.3	-1.0	
Energy (Power)	685.4	14.4	10.8	(25.4)	(14.9)			79.0	-12.9	
Corporate	(71.9)	(73.1)	38.4	92.9	(64.6)			(33.0)	28.0	
EBIT Margin (%)										
EPC (Construction)	15.1	13.8	16.4	13.2	18.0	*290bp*	*474bp*	15.0	16.2	*116bp*
Energy (Power)	42.8	-125.2	69.5	74.9	52.1	*933bp*	*(2277bp)*	64.0	68.1	*411bp*
Corporate	99.8	100.0	100.0	100.0	99.4	*(40bp)*	*(55bp)*	99.9	100.0	*3bp*
ROCE (%)										
EPC (Construction)	24.1	25.1	28.7	11.5	19.5	*(463bp)*	*797bp*	62.8	53.6	*(914bp)*
Energy (Power)	1.3	-0.7	4.3	5.7	2.0	*74bp*	*(364bp)*	8.8	12.5	*367bp*
Corporate	3.0	3.2	3.4	3.1	0.5	*(241bp)*	*(254bp)*	11.3	7.6	(377bp)

Source: Company, AMSEC Research

Concall Highlights

- Management expecting flat top line growth and 10-15% bottom line growth in FY18. EPC revenue will grow 15% and EBITDAM will improve by 100bp in FY19.
- Order book as on Dec 2017 stand at Rs24bn and order inflow for 9MFY18 stand at Rs12bn (include L1 of Rs3bn). Order Inflow guidance remains at Rs10-15bn for FY18 and Rs25bn for FY19. In FY19E, management expects ~Rs6-7bn order from FGD, Rs 6bn from African region, Rs2.5bn from industry and Rs 10bn from utilities & Solar segment.
- In 9MFY18, consolidated debt stand at Rs1.1bn Vs Rs3bn in FY17 and management expecting zero debt on consolidated basis by June 18. Cash & hand in 9MFY18 stand at Rs3.7bn.
- FGD opportunity; NTPC had recently floated 3 tenders namely Lot1A for 15GW plant (Bids submitted), Lot1B for 10GW plant (Bidding by March'18) and Khargaon for 1.3GW plant in Feb'18.
- Lot1A & Lot2B both have 7 packages each and one bidder can bid for maximum of 3 packages.
- SEB order pipeline strong from states like Andhra Pradesh, Tamilnadu, Jharkhand, Rajasthan, MP and Orissa.
- Unsold REC Inventory stand at Rs1,70,000 till Dec'18; Opening balance was at Rs3,55,000 units, REC generated during FY18YTD was 2,20,000 units and TEEC sold ~4,00,000 units.

Exhibit 5: Yearly Segment Details

EPC segment	FY16	FY17	FY18E	FY19E	FY20E
Closing orderbook	25937	25541	23268	27614	30142
Order intake	15830	11714	9957	17922	18819
Sales	10143	12109	12231	13576	16291
EBITDA	1436	1781	1781	2044	2453
EBITDA margin %	14.2	14.7	14.6	15.1	15.1
Other Income	375	258	350	400	550
Adjusted PAT	1278	1468	1643	1892	2337
Wind business	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**
Installed capacity (MW)	163	163	130	130	130
Units, mn p.a	198	315	273	273	273
PLF (%)	13.9	22.1	24.0	24.0	24.0
Average tariff	4.05	4.62	4.44	4.44	4.02
Revenues	801	1458	1212	1212	1098
EBITDA	744	1344	1117	1117	1003
PAT	-81	436	429	549	477

Source: Company, AMSEC Research

Exhibit 6: Quarterly revenue trend

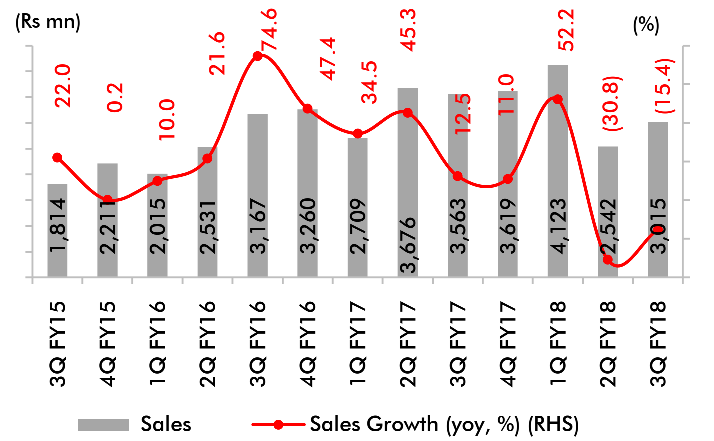

Exhibit 7: Quarterly revenue breakdown segment wise

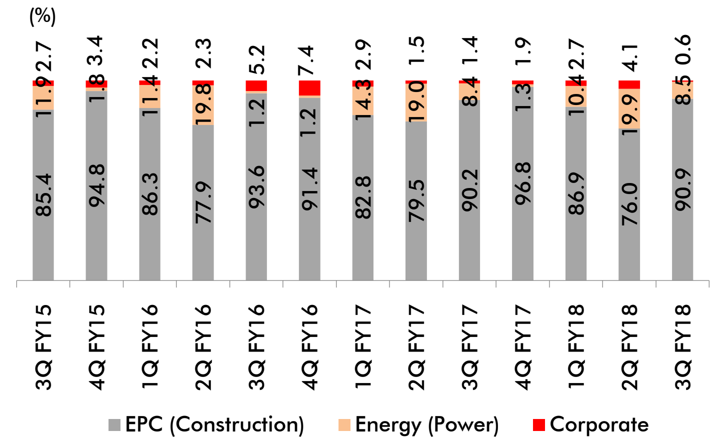

Exhibit 8: Quarterly EBIDTA margin Trend

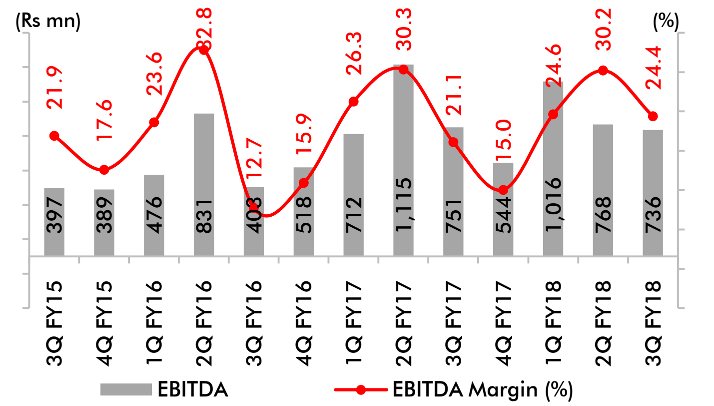

Exhibit 9: Quarterly profit trend

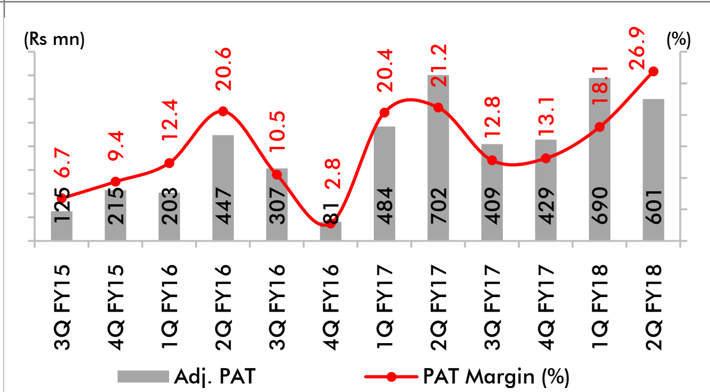

Exhibit 10: Quarterly EPC EBIT and EBITM %

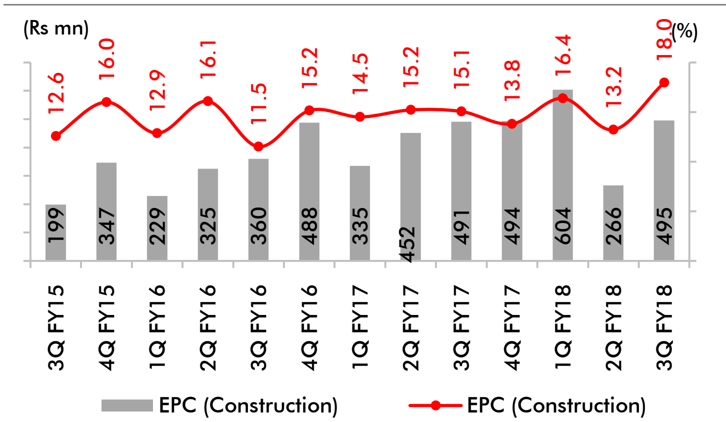

Exhibit 11: SOTP Valuations and PT based on FY19E

Business segment	Valuation methodology	Amount (Rs mn)	Per Share (Rs)
EPC	20x FY20E P/E	46,737	415
Wind power	DCF	6,709	60
Transmission business			
Jhajjar KT Transco	2x book value	760	7
Patran Power	1x book value	300	3
Total equity value		**54,506**	**484**
CMP			363
Upside (%)			33%

Source: Company, AMSEC Research

Financials (Consolidated) (Rs mn)

Profit & Loss Account

Particulars	FY16	FY17	FY18E	FY19E	FY20E
Net sales	10,972	13,567	13,443	14,788	17,389
Consumption of materials	7,816	9,325	9,275	10,278	12,085
Staff Expenses	299	346	336	370	435
Other operating expenses	652	772	933	979	1,414
Total Expenditure	8,766	10,442	10,544	11,626	13,933
EBITDA	**2,206**	**3,125**	**2,899**	**3,161**	**3,455**
Depreciation	495	508	414	414	415
Operating profit	**1,712**	**2,617**	**2,485**	**2,748**	**3,040**
Other income	375	258	350	400	550
EBIT	**2,087**	**2,875**	**2,835**	**3,148**	**3,590**
Interest	443	373	245	96	73
Exceptional items	254	233	-	-	-
Profit before tax	**1,898**	**2,502**	**2,590**	**3,051**	**3,518**
Tax	721	837	518	610	704
Reported net profit	**1,177**	**1,899**	**2,072**	**2,441**	**2,814**
Minority interest	23	29	-	-	-
Adjusted net profit	**1,043**	**2,024**	**2,072**	**2,441**	**2,814**
Share O/s mn	57	114	113	113	113
EPS Rs (adjusted)	10.3	18.0	18.4	21.7	25.0

Cash Flow Statement

Particulars	FY16	FY17	FY18E	FY19E	FY20E
PBT	1,898	2,502	2,590	3,051	3,518
Non-cash adjustments	495	508	414	414	415
Changes in working capital	(1,237)	1,434	317	(276)	(534)
Interest Paid	443	373	245	96	73
Tax Paid & Other Adj	(811)	(1,384)	(518)	(610)	(704)
Cashflow from operations	**788**	**3,433**	**3,048**	**2,675**	**2,767**
Capital exp. & Advances	1,553	2,051	(100)	(100)	(100)
Change in investments	(224)	(3,100)	300	(1,300)	(1,700)
Other investing cashflow	-	-	-	-	-
Cashflow from investing	**1,329**	**(1,049)**	**200**	**(1,400)**	**(1,800)**
Issue of equity	-	-	(578)	-	-
Issue/repay debt	(527)	(2,095)	(2,300)	(500)	-
Interest Paid	(443)	(373)	(245)	(96)	(73)
Dividends paid	(278)	-	(494)	(549)	(659)
Cashflow from financing	**(1,248)**	**(2,468)**	**(3,616)**	**(1,145)**	**(731)**
Change in cash & cash eq	**869**	**(84)**	**(368)**	**130**	**236**
Opening cash & cash eq	**247**	**1,116**	**1,032**	**664**	**793**
Closing cash & cash eq	**1,116**	**1,032**	**664**	**793**	**1,029**
Free cash flow to firm	**2,341**	**5,484**	**2,948**	**2,575**	**2,667**

Balance Sheet

Particulars	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS :					
Share Capital	114	228	225	225	225
Reserves	9,164	10,842	11,845	13,737	15,893
Minority Interest	-	-	-	-	-
Total Shareholders Funds	**9,279**	**11,070**	**12,071**	**13,963**	**16,118**
Non-Current Liabilities	**6,147**	**4,189**	**1,889**	**1,389**	**1,389**
Total borrowings	5,122	3,028	728	228	228
Deferred tax liability	1,025	1,161	1,161	1,161	1,161
Current Liabilities	**3,124**	**3,805**	**3,941**	**4,457**	**5,240**
Trade payables	3,081	3,699	3,793	4,254	5,002
Short term provisions	44	106	147	203	238
Total Equity & Liabilities	**18,550**	**19,064**	**17,900**	**19,808**	**22,747**
APPLICATION OF FUNDS :					
Non Current Assets	**8,871**	**7,276**	**6,962**	**6,648**	**6,333**
Goodwill	205	205	205	205	205
Gross block (Total)	10,886	8,835	8,935	9,035	9,135
Less : accumulated depreciation	2,855	2,553	2,967	3,381	3,796
Net block (Total)	8,032	6,282	5,968	5,655	5,340
Capital work in progress	-	-	-	-	-
Noncurrent investment	634	789	789	789	789
Current Assets	**9,679**	**11,787**	**10,938**	**13,160**	**16,414**
Current investment	926	3,871	3,571	4,871	6,571
Inventories	379	2	37	81	95
Sundry debtors	4,963	5,596	5,340	5,875	6,908
Cash and bank	1,116	1,032	664	793	1,029
Short loans and advances	551	238	258	324	381
Others current assets	1,744	1,048	1,068	1,215	1,429
Total Assets	**18,550**	**19,064**	**17,900**	**19,808**	**22,747**

Net Working Capital*	4,513	3,080	2,762	3,039	3,573
Total Gross Debt**	5,122	3,028	728	228	228
Total Net Debt	3,080	(1,876)	(3,507)	(5,437)	(7,373)
Capital Employed***	14,401	14,098	12,798	14,190	16,346

* WC = CA-CL (Excl short term & Curr. Mat. Long term debt)

** Total Debt = Long Term + short Term + Curr. Mat. Of Long Term Debt

*** Capital Employed = NW + Total Debt

Ratios

Particulars	FY16	FY17	FY18E	FY19E	FY20E
PER SHARE					
EPS Rs (adjusted)	10.3	18.0	18.4	21.7	25.0
CEPS Rs	29.3	21.4	22.1	25.3	28.7
Book Value Rs	162.5	98.2	107.1	123.9	143.0
VALUATION					
EV / Net Sales	2.1	2.9	2.7	2.3	1.9
EV / EBITDA	10.5	12.4	12.6	11.0	9.5
P / E Ratio	70.5	20.2	19.8	16.8	14.5
P / BV Ratio	2.2	3.7	3.4	2.9	2.5
GROWTH YOY%					
Sales Growth	38.2	23.7	(0.9)	10.0	17.6
EBITDA Growth	4.3	41.6	(7.2)	9.1	9.3
Net Profit Growth	10.8	61.3	9.1	17.8	15.3
PROFITABILITY (%)					
EBITDA / Net Sales	20.1	23.0	21.6	21.4	19.9
EBIT / Net sales	19.0	21.2	21.1	21.3	20.6
NPM / Total income	10.2	14.6	15.0	16.1	15.7
Raw Material/Net Sales	71.2	68.7	69.0	69.5	69.5
Int/PBIT	21.2	13.0	8.6	3.1	2.0
Core ROaNW (Ex cash)	13.8	30.9	28.8	29.1	31.2
Core ROaCE (Ex Cash)	8.1	15.6	21.5	24.7	27.0
ROaNW	13.1	19.9	17.9	18.8	18.7
ROaCE	9.4	15.6	22.5	26.1	29.0
Tax / PBT	38.0	33.4	20.0	20.0	20.0
TURNOVER					
Net Woking Cycle (Days)	150	83	75	75	75
Debtors Velocity (Days)	165	151	145	145	145
Inventory (Days)	13	0	1	2	2
Creditors Velocity (Days)	102	100	103	105	105
LIQUIDITY					
Gross Asset Ratio	0.9	1.4	1.5	1.6	1.9
Total Asset Ratio	0.6	0.7	0.7	0.8	0.8
Net Debt-Equity Ratio	0.3	(0.2)	(0.3)	(0.4)	(0.5)
Interest Coverage (x)	4.7	7.7	11.6	32.7	49.5
PAYOUT					
Payout %	23.6	-	23.8	22.5	23.4
Yield %	1.4	-	1.2	1.4	1.7

Source: Company, AMSEC Research;

Recommendation rationale

Buy: Potential upside of	>+15% (absolute returns)
Accumulate:	>+5 to +15%
Reduce:	+5 to -5%
Sell:	< -5%
Not Rated (NR):	No investment opinion on the stock

Sector rating

Overweight:	The sector is expected to outperform relative to the Sensex.
Underweight:	The sector is expected to underperform relative to the Sensex.
Neutral:	The sector is expected to perform in line with the Sensex.

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