

Capitalizing on power and data-center theme

Engineering & Capital Goods ▶ Result Update ▶ May 30, 2024

TARGET PRICE (Rs): 1,400

We assume coverage on Techno Electric (TEEC) with a BUY recommendation and ~16% upside. TEEC, a top EPC player with capabilities to provide solutions in T&D (EPC work for Substation, Distribution management system) and power generation (BoP and FGD), has recently diversified into high-growth businesses such as smart meter and data center. With a robust order backlog of Rs92bn, along with a strong enquiry pipeline, we expect TEEC's revenue to more than double in the next 2 years. Order prospects are resilient, supported by the T&D segment and smart metering space, given GoI's aggressive targets for renewable capacity adds and RDSS-led ordering. We expect multifold growth in the data-center segment on the back of rising digitization globally benefiting TEEC. We retain BUY on TEEC; our new SOTP-based TP is Rs1,400/sh. We value EPC business at 30x FY26E. The higher multiple is justified, given TEEC's robust balance sheet, sharp jump in order-backlog, and favorable tailwinds.

Techno Electric: Financial Snapshot

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	10,739	8,295	15,024	25,200	35,473
EBITDA	2,222	867	2,094	3,696	5,545
Adj. PAT	2,631	966	2,710	3,594	4,901
Adj. EPS (Rs)	23.9	8.8	25.2	33.4	45.5
EBITDA margin (%)	20.7	10.4	13.9	14.7	15.6
EBITDA growth (%)	2.8	(61.0)	141.6	76.5	50.0
Adj. EPS growth (%)	44.8	(63.3)	186.7	32.6	36.4
RoE (%)	15.2	5.1	13.2	15.6	18.4
RoIC (%)	17.7	9.1	23.3	27.6	27.6
P/E (x)	50.5	137.6	48.0	36.2	26.5
EV/EBITDA (x)	59.6	151.7	61.5	33.8	23.0
P/B (x)	7.2	6.9	6.0	5.3	4.5
FCFF yield (%)	3.0	3.1	(1.2)	(0.3)	0.0

Source: Company, Emkay Research

FY24 Financial Summary and Guidance

TEEC recorded a stellar performance during FY24, with revenue/EBITDA of Rs15bn/2bn (+81%/+142% YoY). Gross margins for the full year dipped to 22.8% (-179bps YoY). Meanwhile, EBITDAM came in at 13.9% (+349bps YoY). This is on account of manpower expenses/other expenses as a % of sales declining to 3.1%/5.8% (-201bps/-327bps YoY). Q4FY24 revenue grew to Rs3.1bn (+41%/+35% YoY/QoQ), with EBITDAM of 12.4% (+1,010bps/-488bps YoY/QoQ). FY24 OCF turned negative to -Rs1.9bn (vs FY23: +Rs93mn), majorly on account of working capital changes. Going ahead, Management guidance to FY25E/26E revenue stands at Rs2.5/3.5bn (FY24-26E CAGR of +50%). Our revenue estimates are in line with Management guidance, and we expect margins to expand to 14.7%/15.6% on account of operating leverage kicking in.

Growth prospects leading to top-level management hiring

TEEC's robust order book at end-FY24, worth Rs92bn (vs FY23: Rs37bn), coupled with L1 position as of date at Rs10bn, depicts the strong order inquiry. Albeit order inflow guidance remains conservative at Rs50bn for FY25E. In the data center segment, Mgmt. has till date incurred capex of ~Rs3bn towards phase1 of its ~6MW Chennai center. FPO inflow of Rs12.5bn is scheduled for completion during H1FY24. Expected commissioning of the 24MW project in its entirety is scheduled for Mar-26. Additionally, TEEC won an order of ~Rs10bn from RailTel, to set up data centers in 100 locations spanning across 23 of the 28 states. TEEC has been onboarding recruits at the top management level who will be responsible for the respective segments. This move is likely to bode well for taking on a new and complex set of orders going ahead.

Valuations

The strong order backlog will translate into FY26E revenue/EBITDA increasing 8%/10% from previous estimates, resulting in earnings growing by 24% during FY26E. Other than revenue growth, reduction in capitalization estimate leading to fall in depreciation will also add to PAT growth. We maintain our BUY rating with new SoTP-based TP of Rs1,400/sh, valuing the EPC business at 30x FY26E; the higher multiple is justified, given Company's robust balance sheet.

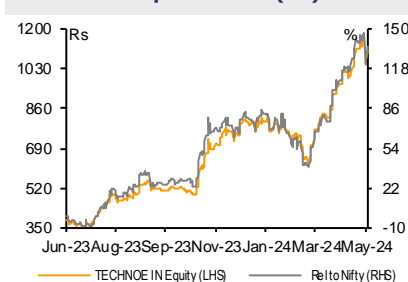
Target Price – 12M	Mar-25
Change in TP (%)	33.4
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	15.8
CMP (30-May-24) (Rs)	1,208.9

Stock Data	Ticker
52-week High (Rs)	1,234
52-week Low (Rs)	343
Shares outstanding (mn)	107.6
Market-cap (Rs bn)	130
Market-cap (USD mn)	1,562
Net-debt, FY25E (Rs mn)	-5,054
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	432.1
ADTV-3M (USD mn)	5.2
Free float (%)	-
Nifty-50	22,489
INR/USD	83.3
Shareholding, Jun-18	
Promoters (%)	58.8
FPIs/MFs (%)	1.5/22.6

Price Performance

(%)	1M	3M	12M
Absolute	19.1	71.0	220.2
Rel. to Nifty	19.7	67.2	165.3

1-Year share price trend (Rs)



Ashwani Sharma

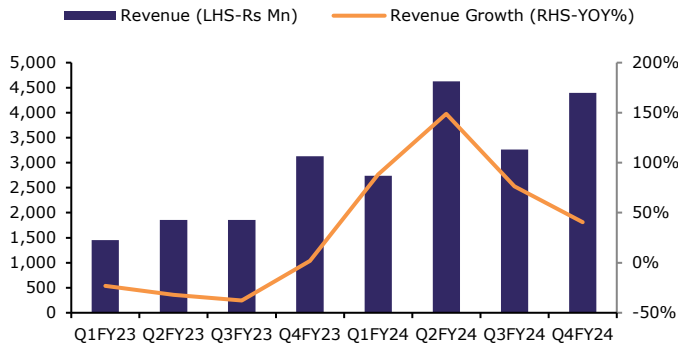
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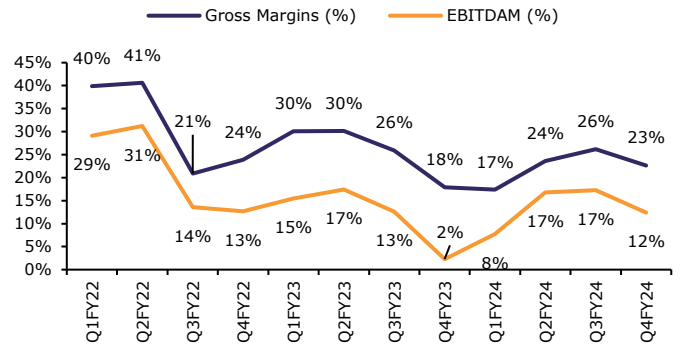
Story In Charts

Exhibit 1: Q4FY24 revenue rose to Rs4.4bn (+41%/35% YoY/QOQ)



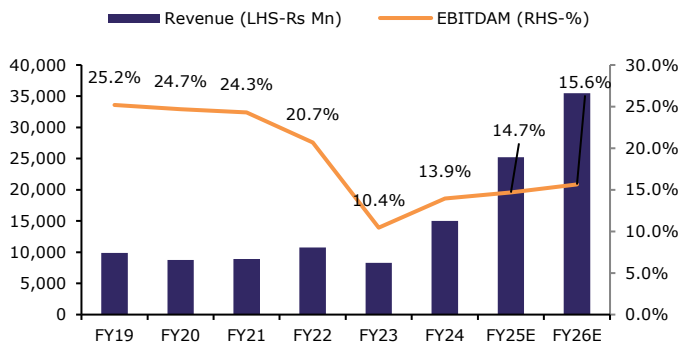
Source: Company, Emkay Research

Exhibit 2: Q4FY24 margin profile rose YoY albeit dipped QoQ



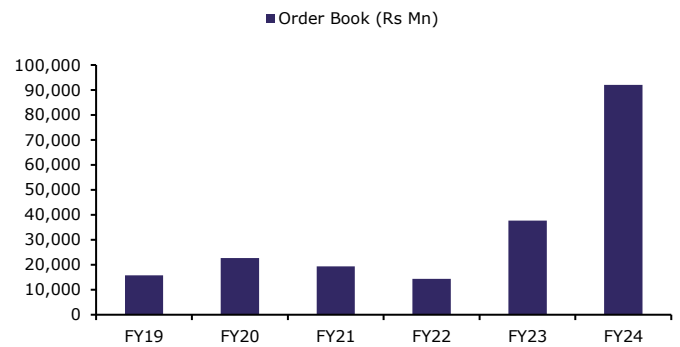
Source: Company, Emkay Research

Exhibit 3: Revenue to grow in line with guidance; expect margins to expand going ahead



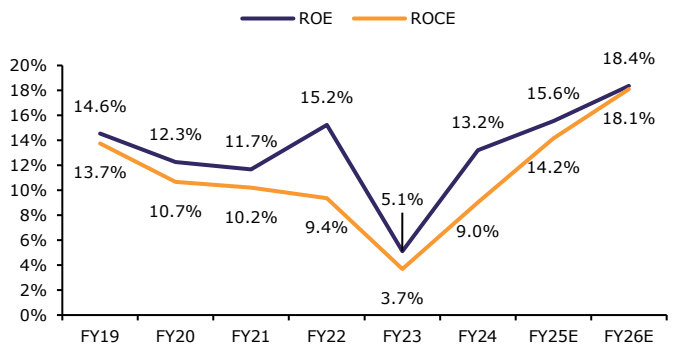
Source: Company, Emkay Research

Exhibit 4: Strong tendering activity has led to rise in order book



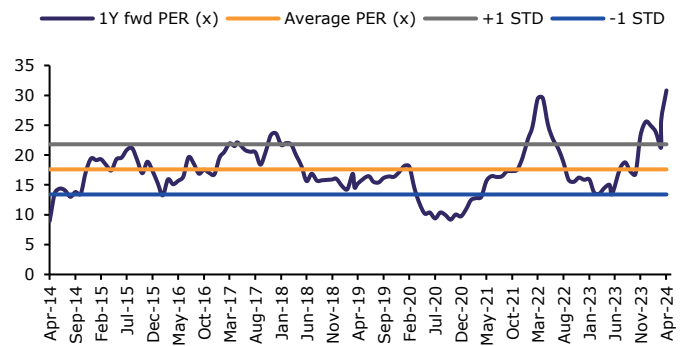
Source: Company, Emkay Research

Exhibit 5: ROE/ROCE on an upward trajectory going ahead



Source: Company, Emkay Research

Exhibit 6: TEEC currently trading above +1SD 1YF P/E



Source: Bloomberg, Emkay Research

Exhibit 7: Quarterly Results

Financial Result Analysis (Rs mn)	Q4FY23	Q3FY24	Q4FY24	YoY (%)	QoQ (%)	FY23	FY24	YoY (%)
Revenue	3,130	3,265	4,396	40.5	34.6	8,295	15,024	81.1
Raw Material cost	2,569	2,410	3,400	32.3	41.1	6,258	11,604	85.4
as % of sales	82.1	73.8	77.3	-476bps	353bps	75.4	77.2	179bps
Employee Cost	138	112	127	(8.1)	12.9	422	462	9.4
as % of sales	4.4	3.4	2.9	-152bps	-56bps	5.1	3.1	-201bps
Other expenditure	351	179	325	(7.4)	81.2	748	864	15.5
as % of sales	11.2	5.5	7.4	-382bps	190bps	9.0	5.8	-327bps
Total expenditure	3,058	2,702	3,852	26.0	42.6	7,428	12,930	74
EBITDA	71	563	544	663.2	(3.4)	867	2,094	142
Depreciation	20	20	20	0.9	0.0	76	78	3
EBIT	52	543	524	916.4	(3.5)	791	2,016	155
Other Income	227	448	313	37.8	(30.3)	746	1,361	82
Interest	63	40	43	(32.1)	8.0	107	164	54
PBT	215	952	794	268.6	(16.6)	1,431	3,213	125
Taxes	164	33	19	(88.7)	(44.4)	464	502	8
PAT	51	919	775	1,415.1	(15.6)	966	2,710	181
Extra ord / Exceptional item	-	-	-	-	-	(902)	26	(103)
Minority interest	-	(2)	-	-	-	-	-	-
Add: Associate income	-	-	-	-	-	-	-	-
Reported PAT	51	920	775	1,415.1	(15.8)	64	2,736	4,203
(%)								
Gross margin	17.9	26.2	22.7	476bps	-353bps	24.6	22.8	-179bps
EBITDAM	2.3	17.3	12.4	1010bps	-488bps	10.4	13.9	349bps
EBITM	1.6	16.6	11.9	1028bps	-472bps	9.5	13.4	388bps
PBTM	6.9	29.2	18.1	1118bps	-1110bps	17.2	21.4	414bps
PATM	1.6	28.1	17.6	1600bps	-1050bps	11.6	18.0	639bps
Effective Tax rate	76.2	3.5	2.3	-7390bps	-117bps	32.5	15.6	-1683bps

Source: Company, Emkay Research

Exhibit 8: Change in Estimates

Rs mn	FY25E			FY26E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenue	25,200	25,200	0%	32,737	35,473	8%
EBITDA	3,770	3,696	-2%	5,028	5,545	10%
EBITDA margin	15.0%	14.7%	-30bps	15.4%	15.6%	27bps
PAT	3,083	3,594	17%	3,962	4,901	24%
EPS (Rs)	28.6	33.4	17%	36.8	45.5	24%
P/E (x)	38.9	33.3		30.2	24.4	

Source: Emkay Research

Exhibit 9: SoTP-based value

Particulars	Valuation basis	Adj. PAT (Rs mn)	Eq. value (Rs mn)	Eq/share (Rs)
EPC	30x FY26E	3,358	1,09,967	1,022
Data Center	DCF		26,994	251
Cash & cash equivalent			12,787	128
Equity value/share (Mar-26E)				1,400

Source: Emkay Research

Key Concall Takeaways

Company Performance:

- During FY24, revenue/PAT came in at Rs15bn/2.7bn (+81%/+181% YoY), recording an EPS of ~Rs25 (TTM PER: 44x). Dividend of Rs7/share (+350% of FV) has been announced for the year ending FY24.
- Order inflows during FY24 grew to Rs70bn (+86% YoY); meanwhile, the order backlog stood at Rs92bn, and Company's current L1 position stands at Rs10bn.
- Cash balance at the end of FY24 stood at Rs1.4bn. Management will be eyeing to close its QIP worth Rs12.5bn in H1FY24.
- TEEC has been onboarding recruits at the top level in order to streamline each vertical (T&D, FGD, Smart metering, Data Center).
- Assets in RE and transmission, which were created over the past 15 years, now stand monetized, and TEEC currently possesses no asset on hand, barring data centers under construction.

Data Centers:

- Management has, till date, incurred capex of ~Rs3bn towards phase1 of its ~6MW Chennai center of. The entire project of ~24MW is expected to be commissioned by Mar-26.
- TEEC recently won a concession from RailTel to setup >100 edge data centers on railway stations across 23 states. Target has been set to commission data centers at 20 locations each year, totaling 100 locations in coming 5 years. TEEC is targeting execution of each data center at the respective location within months from the date of allocation of land. Additionally, these data centers will have to be operated by the company for the next 20-25 years, after which operations will be transferred back to RailTel.
- TEEC was also awarded an order to setup a data center in Kolkata; it is currently under the design phase and its construction shall commence from Jan-25.
- Management has been looking to tie up with strategic partners, in order to run its data centers. Nevertheless, it is also open to the option of running it on its own, for want of a suitable partner.
- As a shift in the monetization strategy, Management plans to operate the data centers that it commissions, unless there are buyers at attractive valuations.

Smart Metering:

- TEEC is currently setting up 3mn meters (worth Rs35bn) across J&K, Tripura, Jharkhand, and Madhya Pradesh.
- TEEC is currently L1 in an order worth Rs6.67bn towards providing feeder smart meters in Punjab. The costing of these high-end smart meters falls in the ~Rs37,000-38,000 per meter range, which largely varies across consumer meters.

Guidance:

- Management continues to have a positive outlook on the industry, on the back of a strong order inquiry pipeline and increasing tendering activities by the GoI.
- Revenue guidance for FY25E/FY26E was Rs25bn/Rs35bn, and EPS is expected to grow to Rs35/50 during a similar timeline.
- Management guides to an order inflow of Rs50bn during FY25E. It plans incurring capex of ~Rs50bn over the next two years. The capex to be incurred is likely to be distributed among data centers/TBCBs/Smart meters in the ratio of 25%/25%/50%.

Techno Electric: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	10,739	8,295	15,024	25,200	35,473
Revenue growth (%)	20.8	(22.8)	81.1	67.7	40.8
EBITDA	2,222	867	2,094	3,696	5,545
EBITDA growth (%)	2.8	(61.0)	141.6	76.5	50.0
Depreciation & Amortization	413	76	78	278	528
EBIT	1,810	791	2,016	3,417	5,017
EBIT growth (%)	3.4	(56.3)	154.9	69.5	46.8
Other operating income	0	0	0	0	0
Other income	1,508	746	1,361	1,497	1,647
Financial expense	64	107	164	123	129
PBT	3,254	1,431	3,213	4,791	6,534
Extraordinary items	0	0	0	0	0
Taxes	658	464	502	1,198	1,634
Minority interest	0	0	0	0	0
Income from JV/Associates	36	0	0	0	0
Reported PAT	2,631	966	2,710	3,594	4,901
PAT growth (%)	44.8	(63.3)	180.5	32.6	36.4
Adjusted PAT	2,631	966	2,710	3,594	4,901
Diluted EPS (Rs)	23.9	8.8	25.2	33.4	45.5
Diluted EPS growth (%)	44.8	(63.3)	186.7	32.6	36.4
DPS (Rs)	4.0	6.0	6.1	6.1	6.1
Dividend payout (%)	16.7	68.3	24.4	18.4	13.5
EBITDA margin (%)	20.7	10.4	13.9	14.7	15.6
EBIT margin (%)	16.9	9.5	13.4	13.6	14.1
Effective tax rate (%)	20.2	32.5	15.6	25.0	25.0
NOPLAT (pre-IndAS)	(348)	(249)	(295)	(820)	(1,204)
Shares outstanding (mn)	110.0	110.0	107.6	107.6	107.6

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	3,254	1,431	3,213	4,791	6,534
Others (non-cash items)	0	0	0	0	0
Taxes paid	658	464	502	1,198	1,634
Change in NWC	1,131	(319)	(2,186)	(780)	(2,175)
Operating cash flow	4,011	1,012	411	4,113	5,004
Capital expenditure	(337)	2,756	(1,837)	(4,500)	(5,000)
Acquisition of business	(3,352)	(2,558)	1,628	5,750	0
Interest & dividend income	642	489	489	489	489
Investing cash flow	(2,181)	945	1,153	2,747	(3,353)
Equity raised/(repaid)	0	(5)	0	0	0
Debt raised/(repaid)	(400)	0	0	0	0
Payment of lease liabilities	0	0	0	0	0
Interest paid	(64)	(107)	(164)	(123)	(129)
Dividend paid (incl tax)	440	660	660	660	660
Others	(2,147)	(1,511)	(2,149)	(3,716)	(4,382)
Financing cash flow	(2,171)	(962)	(1,653)	(3,179)	(3,851)
Net chg in Cash	(341)	995	(90)	3,682	(2,201)
OCF	4,011	1,012	411	4,113	5,004
Adj. OCF (w/o NWC chg.)	5,142	693	(1,775)	3,334	2,829
FCFF	3,674	3,769	(1,426)	(387)	4
FCFE	4,252	4,151	(1,101)	(21)	363
OCF/EBITDA (%)	180.5	116.8	19.6	111.3	90.2
FCFE/PAT (%)	161.6	429.7	(40.6)	(0.6)	7.4
FCFF/NOPLAT (%)	(1,055.4)	(1,514.6)	483.4	47.1	(0.3)

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	220	215	215	215	215
Reserves & Surplus	18,147	19,191	21,417	24,350	28,591
Net worth	18,367	19,406	21,632	24,566	28,806
Minority interests	0	0	0	0	0
Deferred tax liability (net)	1,221	717	693	693	693
Total debt	0	0	0	0	0
Total liabilities & equity	19,588	20,124	22,325	25,259	29,499
Net tangible fixed assets	4,242	478	429	4,651	9,123
Net intangible assets	10	0	0	0	0
Net ROU assets	339	334	330	330	330
Capital WIP	0	946	2,757	2,757	2,757
Goodwill	10	0	0	0	0
Investments [JV/Associates]	10,490	13,048	11,419	5,669	5,669
Cash & equivalents	467	1,462	1,372	5,054	2,648
Current assets (ex-cash)	9,613	11,526	12,029	16,534	22,468
Current Liab. & Prov.	5,572	7,669	6,012	9,736	13,496
NWC (ex-cash)	4,041	3,857	6,018	6,798	8,972
Total assets	19,588	20,124	22,325	25,259	29,500
Net debt	(467)	(1,462)	(1,372)	(5,054)	(2,648)
Capital employed	19,588	20,124	22,325	25,259	29,499
Invested capital	8,631	4,669	6,777	11,778	18,425
BVPS (Rs)	167.0	176.4	201.0	228.3	267.7
Net Debt/Equity (x)	0.0	(0.1)	(0.1)	(0.2)	(0.1)
Net Debt/EBITDA (x)	(0.2)	(1.7)	(0.7)	(1.4)	(0.5)
Interest coverage (x)	0.0	0.1	0.0	0.0	0.0
RoCE (%)	9.4	3.7	9.0	14.2	18.1

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	50.5	137.6	48.0	36.2	26.5
P/CE(x)	40.2	117.5	43.0	30.9	22.1
P/B (x)	7.2	6.9	6.0	5.3	4.5
EV/Sales (x)	12.3	15.9	8.6	5.0	3.6
EV/EBITDA (x)	59.6	151.7	61.5	33.8	23.0
EV/EBIT(x)	67.4	153.0	58.8	33.6	23.4
EV/IC (x)	14.1	25.9	17.5	9.7	6.4
FCFF yield (%)	3.0	3.1	(1.2)	(0.3)	0.0
FCFE yield (%)	3.5	3.4	(0.9)	0.0	0.3
Dividend yield (%)	0.3	0.5	0.5	0.5	0.5
DuPont-RoE split					
Net profit margin (%)	24.5	11.6	18.0	14.3	13.8
Total asset turnover (x)	0.6	0.4	0.7	1.1	1.3
Assets/Equity (x)	1.1	1.1	1.0	1.0	1.0
RoE (%)	15.2	5.1	13.2	15.6	18.4
DuPont-RoIC					
NOPLAT margin (%)	(3.2)	(3.0)	(2.0)	(3.3)	(3.4)
IC turnover (x)	0.6	0.4	0.7	1.1	1.4
RoIC (%)	17.7	9.1	23.3	27.6	27.6
Operating metrics					
Core NWC days	137.3	169.7	146.2	98.5	92.3
Total NWC days	137.3	169.7	146.2	98.5	92.3
Fixed asset turnover	1.5	1.9	10.9	6.9	4.2
Opex-to-revenue (%)	9.8	14.1	8.8	7.8	7.2

Source: Company, Emkay Research

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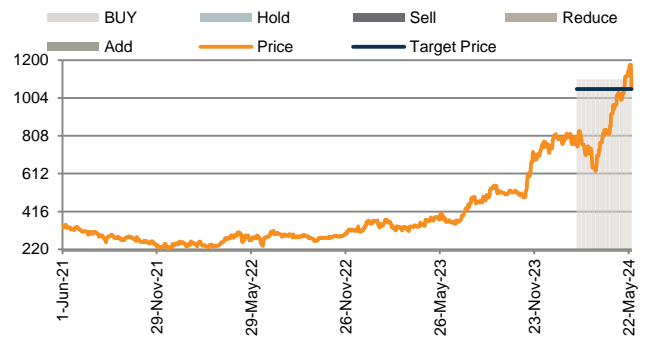
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
12-Feb-24	793	1,050	Buy	Anshul Agrawal

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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