INITIATING COVERAGE

TECHNO ELECTRIC & ENGINEERING

A quiver full of catalysts

India Equity Research| Engineering and Capital Goods

Techno Electric & Engineering (TEEC), with presence across the power sector value chain and select industrial segments, is placed favourably to tap the abundant emerging opportunities. Armed with expertise in handling complex jobs, the company can knock at INR2.6tn of the overall INR3.9tn T&D pie over the next 5 years. Selective bidding approach, underpinned by unwavering RoE and cash flow focus, further bolsters its above industry profitability. To address capital allocation concerns, TEEC is now diverting fresh capital from the loss-making wind business (~11% IRR) to higher returns project business (~15% IRR). We forecast ~34% earnings CAGR and ~17% RoE (FY14-17) riding the robust INR22bn order backlog. Initiate with 'BUY' and INR600 target price based on SOTP.

EPC business: INR2.6tn power opportunity to fuel growth engine

TEEC's EPC division will clock 37% revenue CAGR over FY15-17E propelled by INR2.6tn opportunities across power T&D and generation. Moreover, its new EPC order backlog entails higher margin projects, which is bound to spur overall profitability, yielding 15% plus EBIT margin. We also estimate efficient working capital management to boost the EPC segment's RoCE (FY15: 48%), outpacing competition significantly.

Selective approach competitive MOAT; prudent capital allocation

Expertise in handling complex jobs is TEEC's forte. Also, the company is extremely selective—bids solely for complex projects, which entail higher margins. This, along with efficient working capital management, sets it apart from peers. TEEC is now diverting fresh capital from the loss-making wind business (~11% IRR) to higher returns project business (~15% IRR), which is bound to allay capital allocation concerns.

Outlook and valuations: Engineering growth; initiate with 'BUY'

TEEC is set to be one of the prime beneficiaries of enhanced T&D spending in India. Further, selective approach to orders and efficient working capital management reinforce its impeccable credentials. Moreover, prudent capital allocation with synergy from the project business will boost growth as well as profitability. We initiate coverage with **'BUY/Sector Outperformer'** with SOTP-based target price of INR600.

Financials

Year to March	FY14	FY15	FY16E	FY17E
Revenue (INR mn)	7,085	7,939	10,988	13,821
Growth (%)	*1.2*	*12.1*	*38.4*	*25.8*
EBITDA (INR mn)	1,928	2,082	2,533	3,174
Net profit (INR mn)	877	1,054	1,487	1,898
Diluted EPS (INR)	15.4	18.5	26.0	33.2
EPS growth (%)	*(27.2)*	*20.2*	*41.0*	*27.7*
Diluted PE (x)	32.6	27.1	19.2	15.1
EV/EBITDA (x)	16.7	15.5	11.7	9.0
ROAE (%)	10.8	11.9	15.0	16.7

EDELWEISS 4D RATINGS

Absolute Rating	**BUY**
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA *(R: TEEC.BO, B: TEEC IN)*

CMP	: INR 501
Target Price	: INR 600
52-week range (INR)	: 515 / 237
Share in issue (mn)	: 57.1
M cap (INR bn/USD mn)	: 28 / 440
Avg. Daily Vol.BSE/NSE('000)	: 97.8

SHARE HOLDING PATTERN (%)

	Current	Q3FY15	Q2FY15
Promoters *	58.0	58.0	58.0
MF's, FI's & BK's	15.1	13.5	7.2
FII's	5.1	5.6	5.5
Others	21.8	22.9	29.3

** Promoters pledged shares (% of share in issue) : Nil*

RELATIVE PERFORMANCE (%)

	Sensex	Stock	Stock Over Sensex
1 month	11.6	4.3	7.9
3 months	26.8	(1.2)	2.6
12 months	76.0	10.0	7.3

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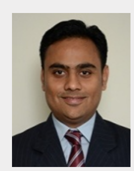

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Investment Rationale

TEEC, fortified by over 3 decades' experience in the EPC business, is present across the entire power sector value chain—generation, transmission and distribution. In generation, while the company has capability to set up captive power plants up to 250MW, it is currently focusing only on specific areas like switchyards. In T&D, 765kV substation projects are its forte, besides distribution projects. Thus, TEEC is placed favourably to tap opportunities across the entire power value chain. On the industrial front, the tie up with Canmec Industriel (Canada) equips TEEC to service EPC requirements of power guzzling industrial units via high precision fabrication and machining jobs. In 2009, the company ventured into the wind business with plans to scale it up further. However, evacuation and other headwinds led to decision to exit the business—sold 44.45MW in May 2015—and currently has 163MW wind assets. Given limited capital requirement in the EPC business and to capitalise on domain expertise, TEEC ventured into BOOT business in 2010 and currently has 2 projects with plans to scale it up to 5 projects by FY17.

INR2.6tn opportunities in EPC across power, industrial segments

INR520bn p.a. EPC opportunity over next 5 years

Given the government's sharpened focus on cutting AT&C losses and thrust on renewables, we expect T&D spending to turn the spotlight on higher kV substations, in addition to spending on the green energy corridor to connect renewable energy to the grid. We envisage generation, transmission and distribution to throw up total EPC opportunity of INR2,602bn (INR520bn p.a.) over the next 5 years for TEEC. We anticipate it to corner ~10% of this. Uptick in industrial and exports would be over and above this.

Competitive MOAT: Selective approach with eye on RoE, cash flows

Unwavering focus on RoE and cash flow; 80% business from repeat customers

Engineering expertise to handle complex jobs is TEEC's forte. Moreover, the company is extremely selective in project bidding given its focus on complex jobs which normally entail higher profitability and cash flows. It bids for projects funded by either bilateral, multilateral or government funding agencies like PFC or REC to ensure reliable payments and cash flows. Also, despite the bandwidth, it steers clear of large sized projects, enabling better control on project monitoring and thus execution. This, in turn, ensures better working capital management given its cash flow focus. Moreover, repeat customers make up over 80% of its order backlog, a testimony to its impeccable execution record.

Allaying capital allocation issue: Shifting from wind business to projects

Capital allocation issues have been suitably addressed

TEEC invested INR4.7bn equity along with debt of INR6.4bn to set up 207MW wind assets. However, the wind business is currently battling multiple challenges—power evacuation, elongated receivables days and lack of demand for renewable energy (RE) certificates. This led to drop in profitability with RoCE of ~10%, singeing TEEC's overall performance. Ergo, the company sold part of its wind assets (44.45MW) in May 2015 and a complete exit is on the anvil. In order to address the capital allocation issue, TEEC is now planning to divert cash flow generated from the EPC business to the project business (IRR at 14-15%), wherein it has ventured to leverage its EPC domain knowledge instead of wind business (IRR of 11%). In the project business, the company recoups most of its equity during construction phase itself, which is the icing on the cake.

Geared to tap opportunities across power, industrial and exports

TEEC's EPC division is set to clock 37% revenue CAGR over FY15-17E propelled by fecund opportunities of INR2,602bn across power T&D and generation. Moreover, the new EPC order backlog entails higher margin projects, which is bound to spur overall profitability, yielding EBIT margin of 15% plus. Also, we expect RoCE to remain high (FY15: 48%), significantly ahead of competition, given TEEC's efficient working capital management. Sharpened focus on industrial and exports will be the cherry on the cake.

T&D: Government's sharpening focus to unlock INR3.9tn opportunity

With presence across the value chain, TEEC is well geared to tap opportunities across the power sector, besides industrial and export markets. While generation does not comprise more than 15% of its order backlog, T&D has steadily scaled up from 56% in FY12 to 88% in FY15. Given the government's sharpened focus on T&D spending, we envisage overall T&D opportunity at INR3.9tn over the next 5 years; of this, we estimate TEEC to be in fray for contracts worth over INR2.6tn (~50% of transmission and all of distribution spending in addition to generation spending related to switchyards) and expect it to corner ~10% during this period based on its historical track record.

Order book continues to be skewed towards T&D

Table 1: Order book break up indicates rising skew towards T&D

Order Book Details	FY12	FY13	FY14	FY15
Generation (%)	1.3	13.8	10.9	3.6
T&D (%)	56.4	60.2	79.9	87.9
Industrial (%)	3.5	2.2	0.9	3.4
Others (%)	38.8	23.9	8.2	5.1
Order Backlog (INR bn)	**9.5**	**10.1**	**17.6**	**20.3**

Source: Company, Edelweiss research

STATCOMs to see investment of INR80bn over the next 3-5 years; partnered with Rongxin Power of China

While EPC activity in power generation remains subdued, transmission bottlenecks have spurred T&D spending, which is expected to top INR3.9tn over the next 5 years. **In transmission**, PGCIL is estimated to spend INR1tn during the 12th Plan (FY12-17: annual capex of ~INR200bn), which is likely to remain at similar level during the 13th Plan (FY18-22), with focus on specific areas—high capacity power transmission corridor (HCPTC), grid strengthening, green energy corridor, among others. PGCIL is now sharpening focus on improving not just availability, but also quality of power. Thus, it is enhancing spending on making the National Grid smarter via investments in systems like STATCOMs (static synchronous condenser) to provide grids higher stability, reliability, improved voltage and rapid response to system events. While currently (phase I) 3 STATCOM systems at Solapur, Aurangabad and Satna have been received by TEEC, over the next 3-5 years, PGCIL is likely to spend INR80bn on ~50 STATCOMs to improve power quality. Having bagged the first few orders, TEEC will have the first mover advantage in STATCOM installation.

PGCIL to spend INR400bn during FY16; NITs for INR270bn already issued. Focus increased on the quality of power

PGCIL is also turning the spotlight on the **green energy corridor** with phase I already under implementation, wherein spending is estimated to top INR130bn, with Phase II spending also at similar level. Further, PGCIL is also expected to spend— INR150bn—to strengthen T&D systems in North Eastern states. During FY16, it is looking to add 20,500GW-ckm and over 20 substations, besides enhancing inter-regional capacity by 15.2GW. Thus, the total spending in T&D by PGCIL is expected to top INR400bn, while tariff-based competitively bid projects (TBCB) are likely to spend INR280bn, presenting a humungous opportunity for T&D

equipment and EPC players. Having already issued NITs for 24 projects totalling INR270bn, PGCIL's purport cannot be emphasised more.

Chart 1: Investments by PGCIL and select SEBs

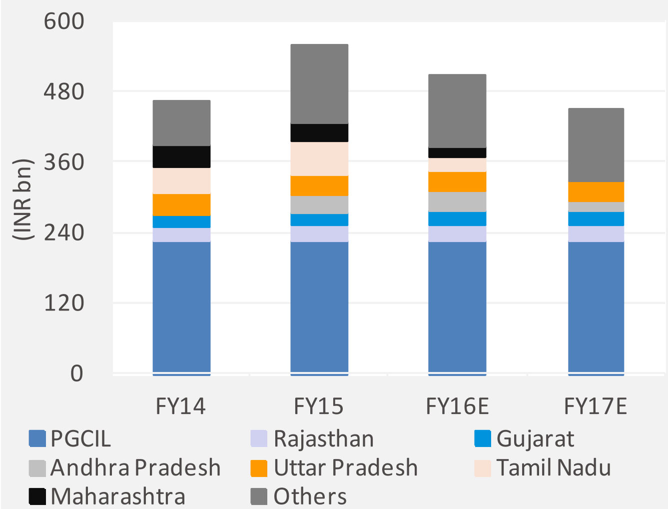
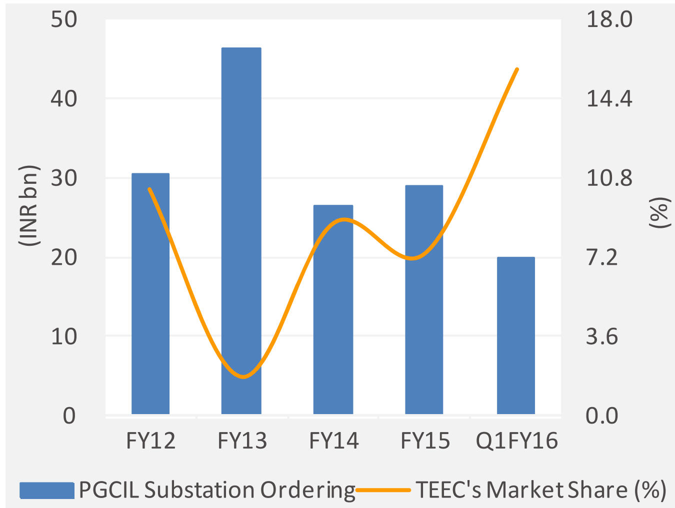


Chart 2: TEEC's market share in PGCIL substation tenders



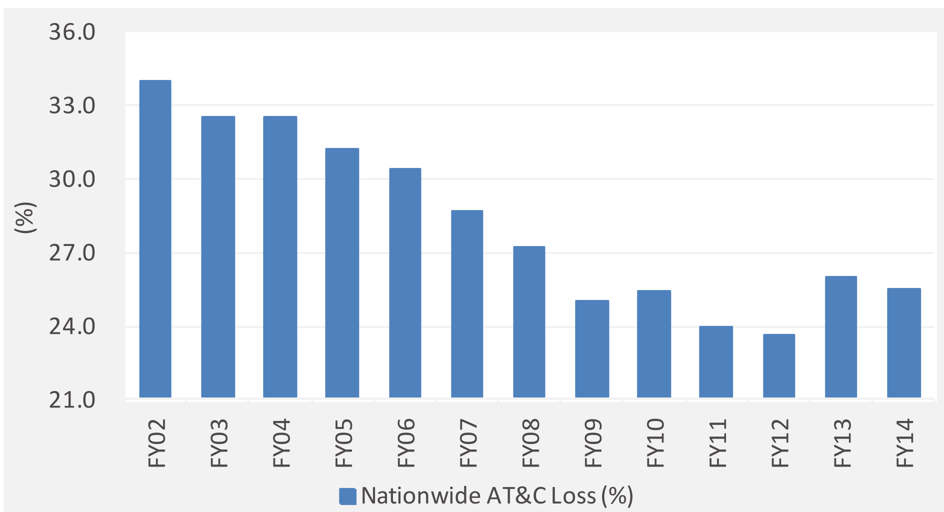
Source: CEA, Industry, Edelweiss research

Rural electrification to get INR760bn boost till FY22

Moreover, the government's sharpening focus on **cutting AT&C losses** to 15% (from ~25% currently) is anticipated to further spur spending in T&D led by SEBs, which for years has been characterised by underinvestment. Also, to improve last mile power connectivity, significant spending is anticipated in distribution spearheaded by SEBs under schemes like Restructured Accelerated Power Development, Reforms Programme (R-APDRP) and Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) now rechristened Deen Dayal Upadhyay Gram Jyoti Yojana (DDUGJY). Total spending under these schemes is likely to top INR760bn till FY22, predominantly towards feeder separation, augmentation of sub-transmission & distribution networks and installing meters in rural and urban centres. As 80% funds will be provided by the government/ government agencies, weak financial health of SEBs will not hamper these plans.

On the cards: Cut AT&C losses to 15% from 25% currently

Chart 3: Historical AT&C losses



Source: CEA, Edelweiss research

SEBs to spend INR300bn annually; enhanced sanctions and disbursements by PFC and REC to spur T&D spending

Additionally, several states have hiked tariffs in the recent past—all India average hike 5.5-13.0% during past 3-4 years. This augurs well for capex plans of SEBs riding higher realisation and revenue. Over the next 5 years, we **anticipate SEBs to spend INR300bn annually** on strengthening their distribution infrastructure; spending on substations is likely to be 20-25% of their total spending during the same period.

Also, Power Finance Corporation (PFC) and Rural Electrification Corporation (REC) have been on a roll in sanctioning financial assistance to SEBs to improve distribution infrastructure and thus reduce AT&C losses. REC's disbursements have been on the rise and cumulatively, over the past decade, stood at INR2,651bn versus INR5,074bn sanctions. Similarly, PFC's cumulative sanctions and disbursements over the past 8 years stood at INR604bn and INR262bn, respectively. This augurs well for TEEC which is selective in bidding for projects and prefers projects funded by agencies where cash flows are not at risk.

Chart 4: PFC's disbursement for T&D to improve

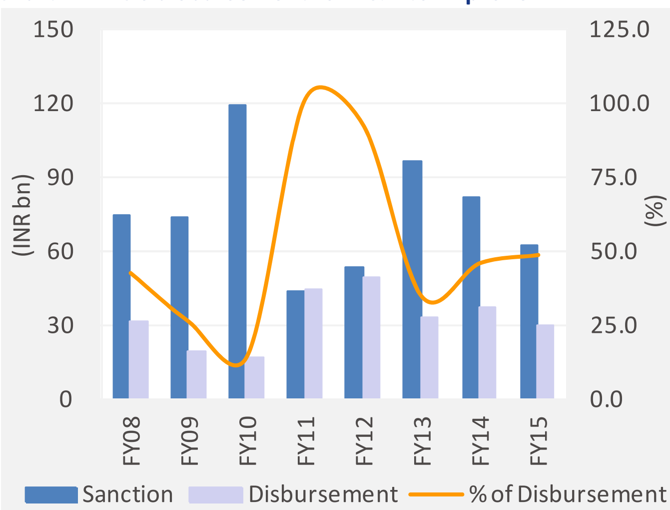
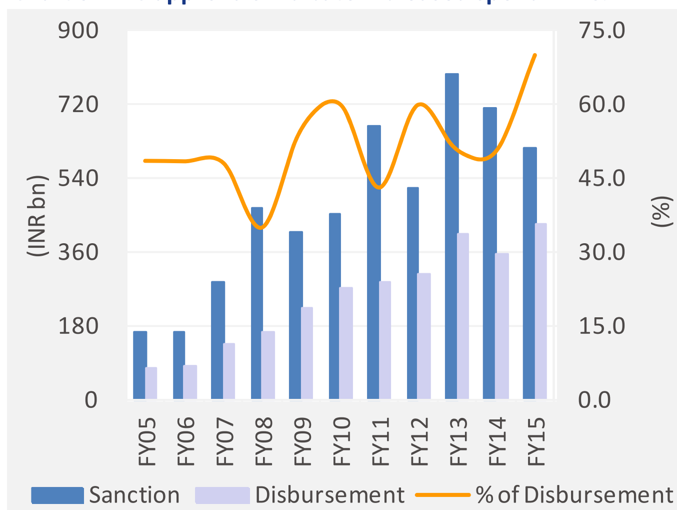


Chart 5: REC approvals indicate increased spend in T&D



Source: PFC, REC, Edelweiss research

Total T&D opportunity pie: We estimate TEEC to corner ~10% of the total T&D opportunity. Moreover, with specialisation in turnkey substations up to 765kV, the company is well placed to tap opportunities worth INR200-250bn in the segment as well, both from PGCIL and select SEBs during the 13th Plan period.

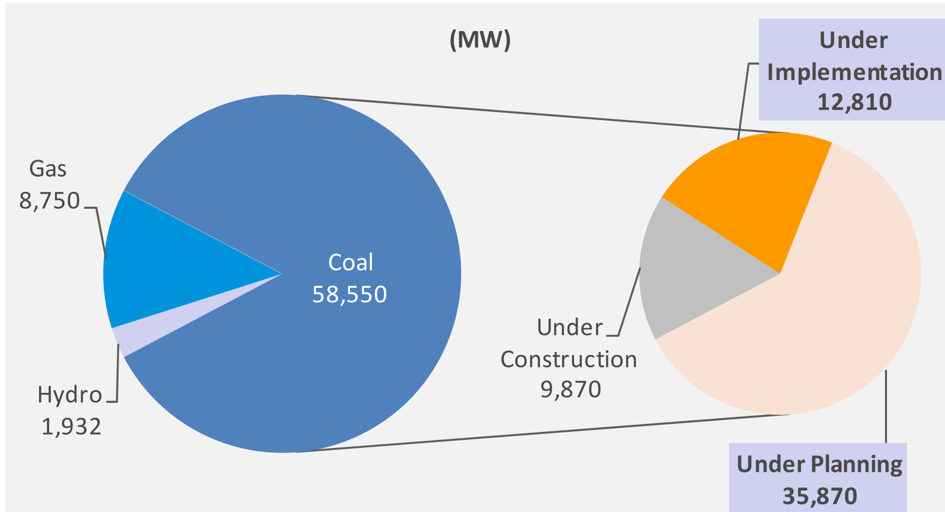
Power generation could provide specific opportunities worth INR60bn in switchyards—TEEC's focus area

Power generation: INR60bn prospects from switchyards

NTPC is set to spearhead generation spending and from its potential 69GW projects, TEEC's business potential lies in coal-based projects of about 48.7GW which are under implementation and/or planning stage. While earlier the company's scope would be INR10mn/MW in certain areas of Balance of Plants (BoP), over the past few years with NTPC ordering out projects on EPC basis or larger packages (with higher share of civil construction), TEEC's scope has reduced. Hence, it is now focusing primarily on **switchyard projects, which entail INR60bn opportunity over the next 5-8 years.**

NTPC's 48.6GW projects currently under implementation/ planning stage: Potent opportunities in power generation

Chart 6: Potential opportunity in power sector from NTPC's pipeline



Source: Sigma, Edelweiss research

In power generation, TEEC currently focuses only on electromechanical projects—its forte—which tends to involve lower construction share and higher project engineering, primarily customised packages. It is steering clear of private sector generation projects given inherent funding and execution issues. Also, TEEC restricts itself to a few large projects at a time, despite the higher bandwidth, ensuring better control on execution and timelines.

Fig. 1: TEEC's areas of expertise in power generation

Capabilities in Power Generation

Power Plants

- Turnkey execution of complete power plant
- Basic engineering, design and detailed project engineering
- Civil and structural works including power house construction and site development
- Supply of electro-mechanical auxiliaries, control and instrumentation scheme with PLCC and SCADA system
- Supply and installation of waste heat recovery boilers, steam turbines and generators
- Commissioning, stablising and putting the project into commercial operation

Balance of Plants

- Design, detail engineering, manufacture, procurement, supply, erection, testing and commissioning of balance of plant comprising naphtha unloading, storage and handling system, fire alarm, detection and protection system, switchyard for power evacuation, plant electricals, cabling and earthing system, illumination system including unloading, erection, testing and commissioning of gas turbines with alternator and associated auxiliaries
- Auxiliary equipment and associated civil construction work

Utilities

- Design, supply, installation, testing and commissioning of complete oil handling facilities including unloading, pumping, associated piping, heating, insulation, electrical and instrumentation work

Source: Company, Edelweiss research

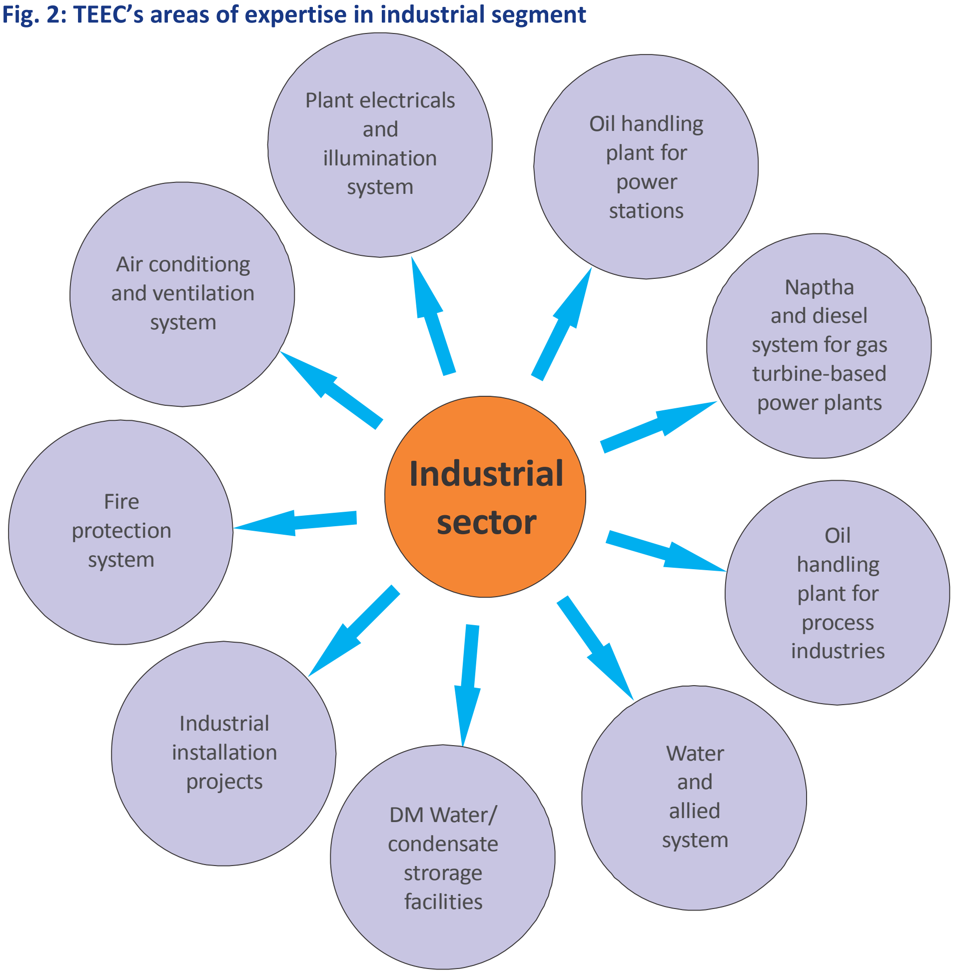
Canmec tie up bolsters expertise in high precision fabrication and machining skills

Industrials: Niche presence; focus on exports, domestic uptick a bonus

In the industrial segment, the company has presence and expertise in certain niche areas in handling complex projects, which includes high precision fabrication and machining skills in power guzzling industrial units. TEEC's specialisation extends to installation of certain high end (360KA) aluminium bus bar system for aluminium smelters where with low voltage it is able to generate high output. The company has technical tie up with Canmec Industriel (Canada) for such industrial projects. Its capability extends to plant electricals and illuminations, cabling projects, water & allied systems, installation of fire protection system and oil handling plants, amongst others.

While the domestic opportunity is muted currently and awaiting an uptick, TEEC could potentially look at international geography for industrial projects. Armed with success in its first international T&D project in Uganda, the company is looking to expand its presence and eyeing opportunities in select neighbouring geographies along with Middle East and the African region. With fall in crude price, several countries in the Gulf are looking at capturing more value from crude before exporting it and thus planning to set up refineries. This could provide TEEC an ideal platform to make up for absence of such projects in the domestic market.

Fig. 2: TEEC's areas of expertise in industrial segment



Source: Company, Edelweiss research

Exports thrust will not only derisk business, but also help tap the large international T&D and industrial projects opportunity

Export opportunity: Targeting 20-30% of order backlog

TEEC extended its footprint to the international geography in FY13 with specific focus on neighbouring countries, Middle East and the African region. The company executed medium-sized T&D project in Nigeria and Uganda recently. Spurred by the experience and fairly large opportunity in target regions, TEEC is looking at selectively taking on international projects which fit its overall criteria—higher complexity entailing superior profitability. Over the next 3-4 years, the company is eyeing 20-30% order backlog from international geographies, which will not only derisk its business, but also aid it tap the large international opportunity in T&D and industrial projects.

Strong order backlog well diversified order backlog across projects

Highest ever order backlog imparts over ~2.2 years' revenue visibility

The company's order book currently stands at ~INR22bn, rendering revenue visibility of over ~2.2 years. While TEEC does not fancy large backlog as it has set its sights firmly on profitability, this is its highest ever order backlog, well diversified across utilities and project types, mitigating client-specific risks. Further, being risk averse, while accepting SEB orders, the company only bids for projects that are funded by either bilateral/ multi-lateral agencies or central power financing companies like PFC/REC which assures timely payments. This selective approach provides TEEC reasonable basis of picking up select orders which fit its criteria of higher complexity and thus entail superior margin.

The proportion of Top 10 orders in the overall backlog has catapulted from 60% to ~90% from FY12 to FY15 even as the share of PGCIL orders has steadily waned from 34% to under 20% over the same period with uptick seen in FY15. TEEC's selective approach to new orders has ensured that it takes on limited and relative risk-free projects. Large part of the new orders comes from existing/repeat customers, further testimony to its superior execution capability. Further, its asset light model, wherein it focuses primarily on design engineering, leads to efficient capital allocation. We anticipate TEEC to continue this modus operandi.

Chart 7: Improving backlog position and book-to-bill ratio

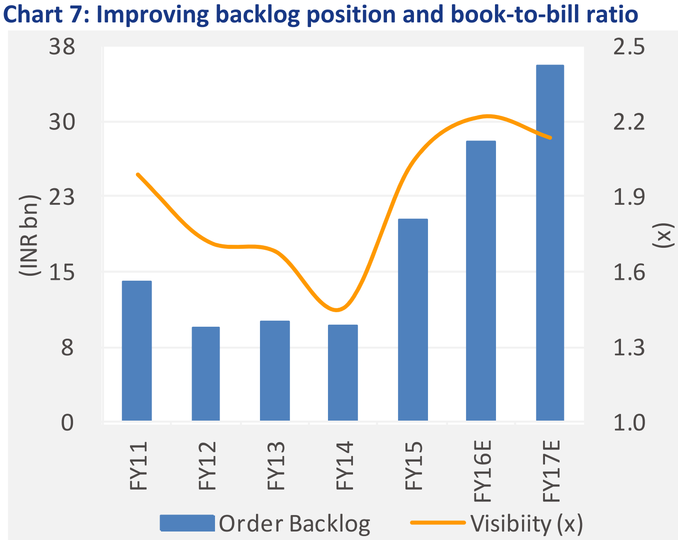
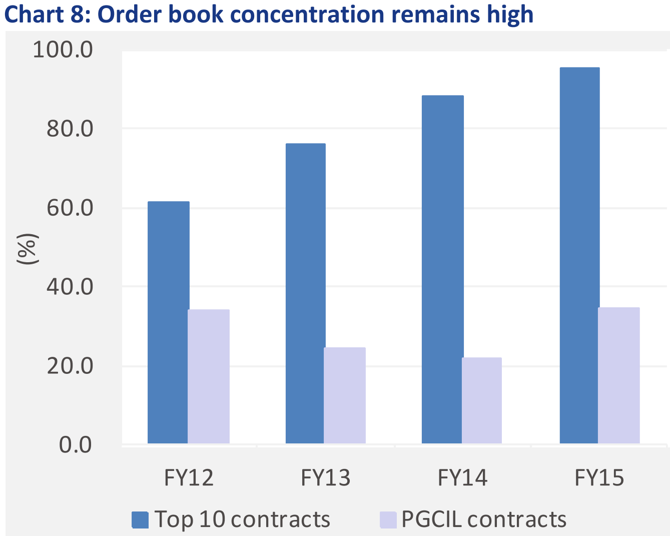


Chart 8: Order book concentration remains high



Source: Company, Edelweiss research

Table 2: Order book is fairly concentrated as top 3 clients comprise 67% of backlog

Name of Client	Contract Value (INR mn)	Percentage of Backlog (%)	Order details
PGCIL	6,950	34.4	Pooling and substation packages including those associated with green energy corridor and extentions of existing substations
North Bihar Power Distribution Co	3,900	19.3	Village electrification work in Gopalganj, Bihar, on turnkey basis under RGGVY
Bihar State Power Transmission Co	2,800	13.9	220/132/33kV grid substation at Mushairi and Kishanganj
Patran Transmission Co	1,750	8.7	400kV transmission system and 400/220kV substation capable to evacuate 1200MW of power
Rajasthan Rajya Vidyut Prasaran Nigam	1,450	7.2	400/220kV, 3x500MVA pooling substation GSS at Ramgarh alongwith 400kV 1x125 MVAr, 400kV Shunt Reactor (Bus type) & 2x50MVAr Shunt Reactor (Line type) for 400kV D/C Ramgarh-Bhadla Line
APTRANSCO	950	4.7	Wind evacuation - 400/220/13kV substation at Jammalamadugu, Kadappa and 400kV Bays at 400/220kV Nannoor (Kurnool) S/S
NTPC	725	3.6	Switchyard package for Kudgi STPP, Stage-I (3x800 MW) Switchyard package for Vindhyachal STPP, Stage-V (1x500MW)
MCC PTA India Corp	690	3.4	BoP work for Mitsubishi Heavy Chemicals, Haldia
Others	1,000	5.0	
Total	**20,215**	**100.0**	

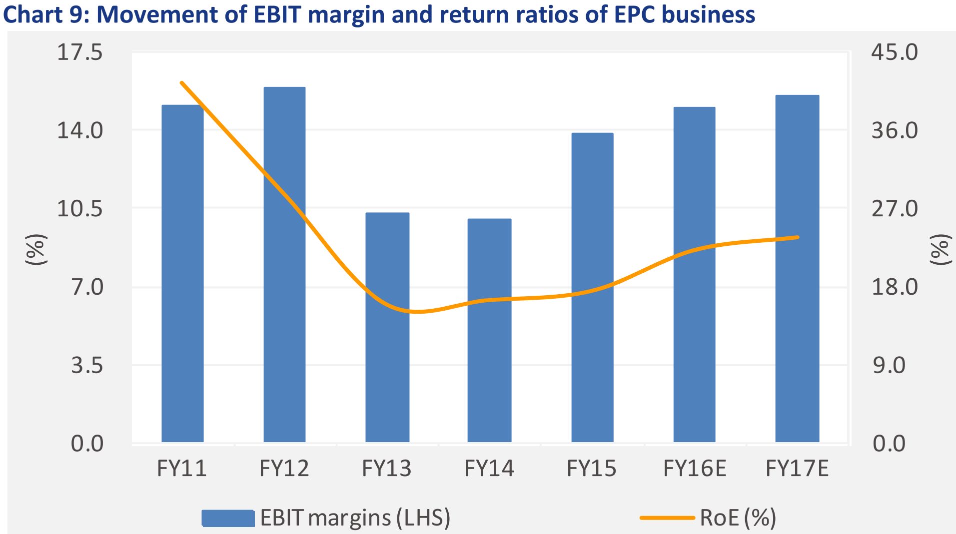
Source: Company, Edelweiss research

The company to move up the revenue curve riding strong backlog

Revenue trajectory set to improve with 37% CAGR over FY15-17E

TEEC hit a low during FY13 when its EPC revenue plummeted ~25% given slowdown in business and sharp drop in order intake. Armed with strong order backlog of INR22bn and healthy order pipeline, the company is now looking at moving up the revenue growth curve—from ~8-10% over the past few years to 37% CAGR over FY15-17E. It targets to achieve this riding improving margin without compromising on the quality of orders or execution as it is highly focused on timely execution along with efficient working capital management.

Chart 9: Movement of EBIT margin and return ratios of EPC business



Source: Company, Edelweiss research

Revenue and PAT share of EPC has risen gradually over the years

Table 3: EPC business - Financials

Particulars	FY13	FY14	FY15	FY16E	FY17E
Revenue (INR mn)	5,507	5,941	6,681	9,921	12,531
Revenue Growth (%)	*(21.8)*	*7.9*	*12.5*	*48.5*	*26.3*
Revenue Share (%)	*74.9*	*81.2*	*84.2*	*90.5*	*92.2*
EBIT (INR mn)	565	593	924	1,488	1,942
EBIT Margin (%)	*10.3*	*10.0*	*13.8*	*15.0*	*15.5*
EBIT Share (%)	*31.7*	*46.1*	*63.6*	*76.3*	*77.5*
PAT (INR mn)	277	335	556	926	1,219
PAT Growth (%)	*(56.7)*	*20.8*	*66.2*	*66.5*	*31.6*
PAT Share (%)	*25.4*	*49.3*	*65.9*	*72.3*	*74.2*

Source: Company, Edelweiss research

Competitive MOAT: Selective approach with eye on RoE, cash flows

Impeccable engineering skills in handling complex jobs is TEEC's core strength. Moreover, the company pursues selective approach in taking on new orders—bids solely for complex projects, which entail higher margins. This, along with efficient working capital management, distinguishes it from peers. 80% of order backlog is from repeat customers, a testimony to its 3 decades' expertise and track record in the EPC business.

TEEC is a pure EPC company, unlike other competing product manufacturing companies which often take on projects to sell their products, thus imparting it the freedom to take on only those projects that fit its profitability and cash flows criteria. Strong engineering expertise in handling complex jobs is TEEC's forte and being asset light, its RoCE is way ahead of the industry. The company is selective in bidding for projects given its focus on complex jobs, which normally entail higher profitability. Also, it prefers to only bid for projects which are funded by either bilateral, multilateral or government funding agencies like PFC or REC, eliminating payment and cash flow related risks.

Table 4: Profitability well ahead of industry

Particulars	FY13	FY14	FY15	FY16E	FY17E
EBIT margins (%)					
KEC International	4.7	5.3	5.0	5.7	6.3
Kalpataru Power (SA)	8.1	7.8	7.7	8.1	8.6
Nagarjuna Construction (SA)	8.2	6.6	7.8	8.2	9.0
KNR Construction (SA)**	16.7	15.1	14.4	14.9	14.6
J Kumar Infra (SA)	14.3	14.4	14.0	14.1	14.2
Simplex Infra (SA)	5.9	7.1	7.6	7.7	8.1
Industry Avg	*9.6*	*9.4*	*9.4*	*9.8*	*10.1*
TEEC (EPC Business)	10.3	10.0	13.8	15.0	15.5

*** Bloomberg Estimate*

Source: Bloomberg, Edelweiss research

Table 5: Profitability is ahead of the industry (cont)...

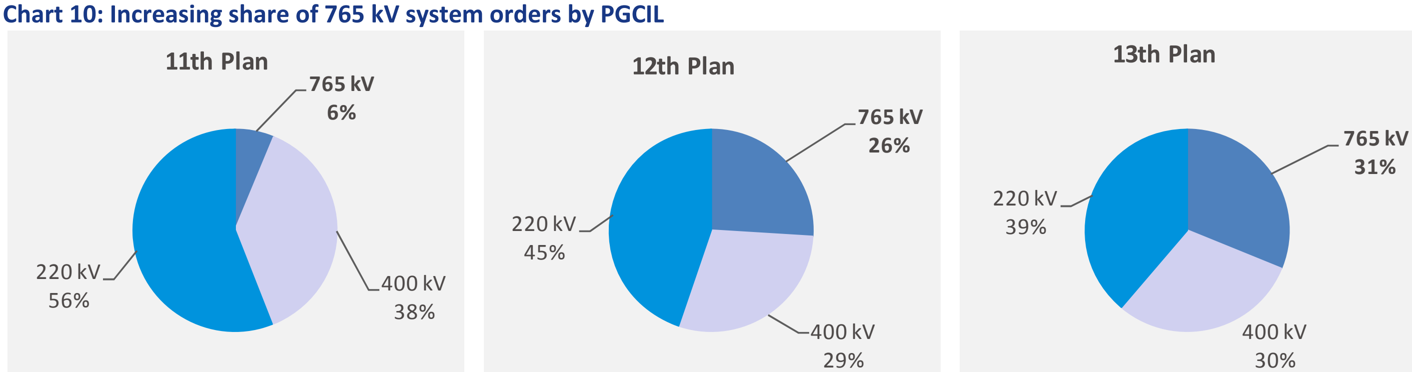
Particulars	FY13	FY14	FY15	FY16E	FY17E
RoE (%)					
KEC International	5.8	7.3	12.8	11.6	16.6
Kalpataru Power (SA)	7.7	7.7	8.2	9.0	11.0
Nagarjuna Construction (SA)*	2.6	1.6	3.9	4.9	7.9
KNR Construction (SA)**	12.1	12.6	13.5	12.2	15.9
J Kumar Infra (SA)	16.1	15.6	12.9	15.1	18.5
Simplex Infra (SA)	5.3	5.4	4.4	5.0	10.1
Industry Avg	*8.3*	*8.4*	*9.3*	*9.6*	*13.3*
TEEC (EPC Business)	16.0	16.5	17.5	22.2	23.7

** Includes BOOT business | ** Bloomberg Estimate* *Source: Bloomberg, Edelweiss research*

T&D opportunity focuses on higher range systems

With incentives based on reduction in AT&C losses, we anticipate PGCIL and SEBs to hike spending on 765kV network. This augurs well for TEEC, given its focus on higher kV substations, where competitive intensity is low, entailing superior profitability. Also, given that the company does not vie for large sized projects, despite having the bandwidth, TEEC has a better control on project monitoring and thus execution. This, in turn, ensures better working capital management given high focus on cash flows.

Chart 10: Increasing share of 765 kV system orders by PGCIL



Source: PGCIL, Edelweiss research

Wind business exit to net INR10-11bn

Allaying capital allocation issue: Shifting from wind business to projects

TEEC's current operational wind assets continue to be value accretive and entail healthy profitability by virtue of being new and more efficient. Furthermore, government's thrust on renewable energy is anticipated to alleviate evacuation issues in Tamil Nadu. This, in turn, will spur PLF, aiding profitability, imparting superior valuation to wind assets, which the company is set to exit. In order to allay capital allocation concerns, TEEC is now diverting fresh capital from wind business (IRR of ~11%) to higher returns project business (IRR of ~15%).

Policy thrust to alleviate headwinds, spur profitabality and propel valuation

TEEC ventured into the wind business via purchase of 95MW wind assets from Suzlon Energy on a slump sale basis in 2009 for INR4.4bn. Subsequently, the company ramped up its wind energy capacity by 112MW over the next 4 years, taking total capacity to 207MW. The entire capacity is tied up with long-term PPA with Tamil Nadu and Karnataka SEBs. Part of the capacity is tied up for benefits under generation based incentives (GBI), renewable energy certificates (RE) and carbon credits. The company had plans to enhance wind capacity to 1,000MW, but given the changing dynamics of the sector, the company has decided against it and will instead exit the wind power business completely. It sold 44.45MW wind assets in Tamil Nadu in May 2015 for INR2.15bn and expects INR8-9bn from the sale of balance wind assets. Thus, netting a total of INR10-11bn from sale of wind assets. Given below are details of TEEC's wind assets.

Table 6: TEEC's wind assets – An overview

Particulars	TEEC (Standalone)	Simran Wind (Subsidiary)	
Capacity	45 MW	50.45 MW *(44.45MW sold)*	111.9 MW
Date of Acquisition/ Commissioning	FY10	FY10	FY11-FY12
Location	Tamil Nadu (12 MW) and Karnataka (33 MW)	*Tamil Nadu (44.45 MW) – Sold* and Karnataka (6 MW)	Tamil Nadu (111.9 MW)
No of Turbines	30 turbines at 3 wind farms	41 turbines at 5 wind farms	67 turbines at 2 wind farms
Capacity	30 turbines of 1.5MW each	28 turbines of 1.5MW each and 13 turbines of various capacity	48 turbines of 1.5MW each and 19 turbines of 2.1MW
PLF Range	18 – 26%	19 – 26%	19 – 26%
PPA / Tariff Details	INR 3.40 (Karnataka) and INR 3.39 (Tamil Nadu)	Preferential tariff – INR 3.39 (TN) and INR 3.40 (Karnataka)	APPC tariff – INR 2.54 (TN) for 111.90 MW
Benefits Details	33 MW – Carbon Credit	21 MW – Carbon Credit 7.5 MW – GBI	111.9 MW – Carbon Credit 111.9 MW – GBI

Source: Company, Edelweiss research

Potent triggers from wind business; upside from sale of assets

The wind business is currently facing headwinds due to evacuation issues in Tamil Nadu, which in turn affected profitability and RoEs of the business. However, given SEBs' sharpened focus on T&D spending, we expect the same to be resolved gradually over the next few years, improving wind assets' overall PLF. Moreover, the central government has accorded high priority to power from renewable energy sources; ergo, we expect more positive developments on the policy front. This could spur demand and thus realisation of Renewable Energy Certificates (RE) certificates and reduce working capital due to elongated receivables cycle. The improved scenario in wind business could help TEEC garner better sale valuation for its wind assets. The company recently sold 44.45MW assets in Tamil Nadu for INR2.15bn and has indicated plans to exit the wind business completely.

RoE (ex cash) set to improve to 40% post sale of wind assets

We anticipate sale of the balance 162MW of wind assets to improve the overall financial matrix of the company. While revenue is likely to decline, the earnings and return ratios would improve as detailed in table 7 below.

Table 7: Sensitivity analysis - impact on FY17E financials after sale of wind business

Particulars (INR mn)	With Wind Business	Post Wind Business	% change
Revenues	13,821	12,788	(7.5)
EBITDA	3,174	2,290	(27.8)
Margins (%)	*23.0*	*17.9*	
PAT	1,898	1,917	1.0
RoE (%)	16.7	22.7	
RoCE (%)	18.0	23.8	

Source: Edelweiss research

Building in 20-23% discount to replacement cost on sale of wind assets

Sale of wind assets: Building ~20% discount to replacement cost

While the first block of older wind assets was sold for a realisation of INR48.4mn/MW, we estimate TEEC to realise INR50mn/MW on sale of its wind asset on blended basis, building in ~20-23% discount to the replacement cost of assets. The company expects to realise higher value on sale of its newer and more efficient assets. Having sold 44.45MW for INR2.15bn, the company expects to recover INR8-9bn for the balance wind assets. Thus, with sale of wind assets, TEEC is expected to recoup all the investments made in the wind business. In addition, it has also benefited from interim profits (including depreciation and tax benefits) it earned on the wind assets.

Table 8: Financials of wind business (including 45MW in standalone)

Particulars	FY13	FY14	FY15	FY16E	FY17E
Revenue (INR mn)	1,843	1,377	1,256	1,042	1,056
Revenue Growth (%)	*59.2*	*(25.3)*	*(8.8)*	*(17.0)*	*1.3*
Revenue Share (%)	*25.1*	*18.8*	*15.8*	*9.5*	*7.8*
EBIT (INR mn)	1,216	692	528	463	469
EBIT Margin (%)	*66.0*	*50.2*	*42.1*	*44.4*	*44.5*
EBIT Share (%)	*68.3*	*53.9*	*36.4*	*23.7*	*18.7*
PAT (INR mn)	677	264	152	95	143
PAT Growth (%)	*168.7*	*(61.0)*	*(42.3)*	*(37.9)*	*51.1*
PAT Share (%)	*62.0*	*38.9*	*18.1*	*7.4*	*8.7*

Source: Company, Edelweiss research

Project business capitalising on EPC domain knowledge; targeting portfolio of 5 projects by FY17

BOOT projects: Avenue for EPC business, steady anuity cash flow

In order to further diversify business and leverage its EPC domain knowledge, TEEC in 2010 ventured into T&D projects on BOOT/BOOM basis. The business model is simple wherein the company bids for projects where it expects to bag sizeable EPC business in return, in addition to annual charges under operation & maintenance (O&M). Further, such projects provide steady annuity cash flows once the debt is repaid. Being selective, TEEC will bid for projects which entail sizeable EPC proportion, enabling it to recoup most of its equity investment via EPC business during the construction phase itself. TEEC could look at asset monetisation of such projects at an opportune time. Currently, it has 2 projects and is looking to add 1 or 2 projects annually targeting a portfolio of 5 projects by FY17 end.

Table 9: Project business – An overview

Particulars	Jhajjar KT Transco	Patram Transmission Co.
Location	Haryana	Punjab
JV or wholly owned	JV with Kalpataru Power where TEEC holds 49% stake	Wholly owned
Project model	BOOT basis	BOOM basis
Project costing	Total cost – INR4.4bn	Total cost – INR2.0bn
Financial Details	Equity – INR0.38bn (for its 49% stake) Debt – INR2.76bn VGF – INR0.92bn	Equity – INR0.6bn Debt – INR1.4bn VGF – Nil
Concession Period	25 years (extendable by 10 years)	35 years
Project Details	400 kV transmission system designed to evacuate 2,400 MW power	400 kV transmission system designed with evacuation facility of 1,000 MVA
Current Status	Operational - commissioned in March 2012	Project bagged in Sep-13 and is under construction; commission expected in May 2016
Other details	First transmission project to receive INR920mn viability gap funding from central government	Financial closure achieved
EPC portion	INR2.25bn	INR1.75bn

Source: Company, Edelweiss research

Table 10: Financial comparison between wind business and project business

Particulars (INR mn)	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E	FY30E	FY31E	FY48E	FY51E
Revenue												
Wind	678	1,158	1,843	1,379	1,256	1,067	1,127	1,187	1,413	-	-	-
Jhajjar BOOT			513	513	540	540	540	540	540	540	540	-
Patran BOOM							210	231	321	321	321	321
EBITDA												
Wind	678	1,143	1,815	1,301	1,137	942	995	1,049	1,157			
Jhajjar BOOT			405	405	432	432	430	428	397	395	336	-
Patran BOOM							190	211	298	298	294	293
PAT												
Wind	270	477	815	396	280	183	275	309	639			
Jhajjar BOOT			(28)	(18)	6	6	18	35	160	234	224	
Patran BOOM							(56)	(30)	154	154	151	150
Free cash flows												
Wind	(559)	(174)	(201)	1,062	(35)	2,161	155	138	487			
Jhajjar BOOT		(106)	(247)	(50)	(26)	(26)	(14)	3	358	278	224	-
Patran BOOM				(60)	(180)	(360)	39	(28)	156	156	246	245

Source: Company, Edelweiss research

Improvement in capital allocation in favour of project business as TEEC looks to exit wind business

Table 11: Cost break up and IRR across wind and project businesses

Business / Project (INR mn)	Total Cost	Equity	Debt	IRR
Wind business	11,100	4,700	6,400	11%
Jhajjar BOOT project	3,103	353	2,750	14%
Patran BOOM project	2,000	600	1,400	14%

Source: Company, Edelweiss research

Valuations

TEEC is a premier EPC company with strong track record of completing projects in time, a feat achieved and, more importantly, sustained, by only a handful of players in the industry. Riding robust cash flow from the EPC business, the company diversified into wind business and has more recently ventured into BOOT / BOOM projects, providing steady annuity-based cash flow. Given limited working capital requirement in the EPC business by virtue of its asset light business model, TEEC has a robust balance sheet.

Strong track record and clear intent to shift from low RoE business (wind) to higher RoE BOOM projects business

The prospect of ramp up in overall investments in T&D augurs well for TEEC's EPC business. Moreover, its selective approach in taking on new EPC projects, places the company favourably to tap expanding opportunities in the EPC business, propelling profitability and return ratios. The drag from the wind business is likely to wane riding the anticipated improvement in evacuation issues in Tamil Nadu, where over 80% of the company's wind capacity is based. Further upside could accrue as TEEC looks to exit from the wind business, having already sold 44.45MW in May 2015.

We use the SOTP methodology, valuing the EPC business at 18x FY17E EPS (premium to its average of ~14.0x prior to acquisition of wind business) given improved book-to-bill, superior margin and above industry return ratios – detailed in table 13 below. We value wind business at 1.2x equity book value, BOOT projects at 1.5x equity book value and cash at 1.0x book value. Thus, we arrive at a fair value of INR600, 20% upside from current level. We initiate coverage on the stock with **'BUY/Sector Outperformer'** recommendation/rating.

Table 12: SOTP valuation

Business Segments	Particulars	Amount (INR mn)	Valuation Method	Multiple (x)	Value (INR mn)	Value per share (INR)
EPC	PAT – FY17E	1,219	P/E	18.0	21,947	384
Energy	Book Value	4,983	P/B	1.2	5,979	105
Project	Book Value	953	P/B	1.5	1,429	25
Cash	Book Value	4,881	P/B	1.0	4,881	85
Total Fair Value						**600**

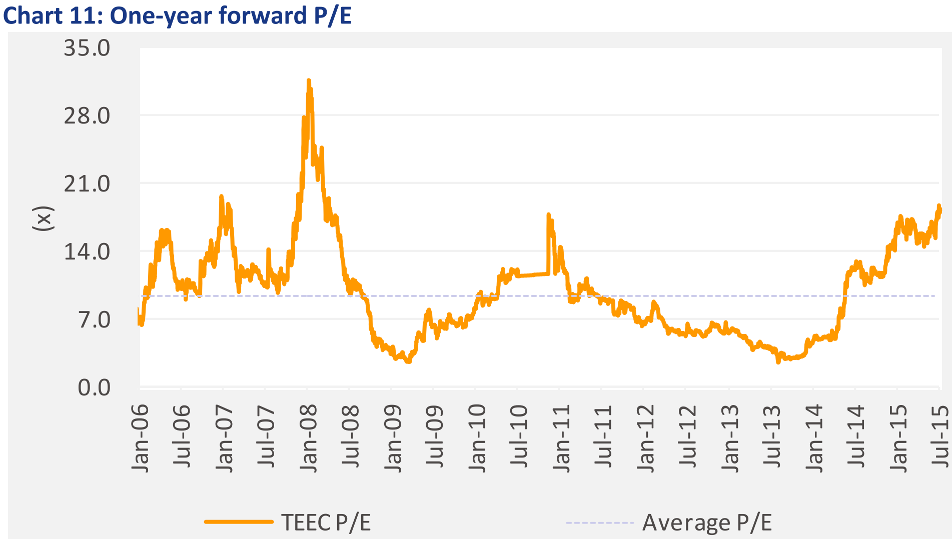
Source: Edelweiss research

Prewind financial profile (FY06-FY09)

Particulars	Value
Revenue CAGR (%)	25.0
Average EBITDA margins (%)	9.9
EPS CAGR (%)	73.0
Average RoE (%)	36.0
P/E (x)	14.0
Peak P/E (x)	31.7

Source: Edelweiss research

Chart 11: One-year forward P/E



Source: Bloomberg, Edelweiss research

Table 13: Financials comparison of Indian companies having exposure to T&D / EPC market

Company	Revenue CAGR (%)	EPS CAGR (%)	RoE (%)			Target P/E
	FY15-17E	FY15-17E	FY15	FY16E	FY17E	(x)
KEC International	12.6	26.6	12.8	11.6	16.6	10.0
Kalpataru Power (SA)	11.6	25.4	8.2	9.0	11.0	12.5
Nagarjuna Construction (SA)*	3.4	90.0	3.9	4.6	8.0	18.0
KNR Construction (SA)**	26.9	23.5	13.5	10.1	11.4	NA
J Kumar Infra (SA)	24.4	38.9	13.8	14.6	18.9	15.0
Simplex Infra (SA)	11.7	90.9	4.4	6.7	12.1	14.0
Industry Avg	*15.1*	*49.2*	*9.4*	*9.4*	*13.0*	*13.9*
TEEC (EPC Business)	37.0	48.0	17.5	22.2	23.7	18.0

** Includes BOOT business | ** Bloomberg Estimate*

Source: Bloomberg, Edelweiss research

Key Risks

Delayed ordering, execution in power sector, currency risk

TEEC's fortunes are linked with the power sector; any delay in ordering and /or execution will impact it adversely. The company is scouting for EPC projects in select international geographies post completing a project in Uganda. All international projects entail certain execution and currency risks.

Deffered uptick in industrial capex due to contagion

Continued delay in uptick in the economy is likely to further delay private sector capex, especially from power-intensive industries like aluminium smelter and oil refineries, which involve huge capital investment. These projects require specialised capabilities and tend to be high margin businesses.

Heightened competitive intensity could impact profitability

TEEC is selective in projects it bids for—complex projects which tend to have better profitability. Incrementally, PGCIL's focus is shifting to improving quality of power, which indicates higher investment in complex T&D network. Heightened competition in such complex projects could drive down TEEC's margin.

Lower utilisation and evacuation issues in wind power assets

Evacuation issues continue to plague the company's Tamil Nadu wind assets, affecting overall PLF. If the situation fails to improve, PLF is likely to remain low and TEEC will desist from additional investment in wind power assets. Further deterioration in the dynamics of the wind power business could affect the company's overall profitability, in turn dampening chances of it divesting wind assets at attractive valuation.

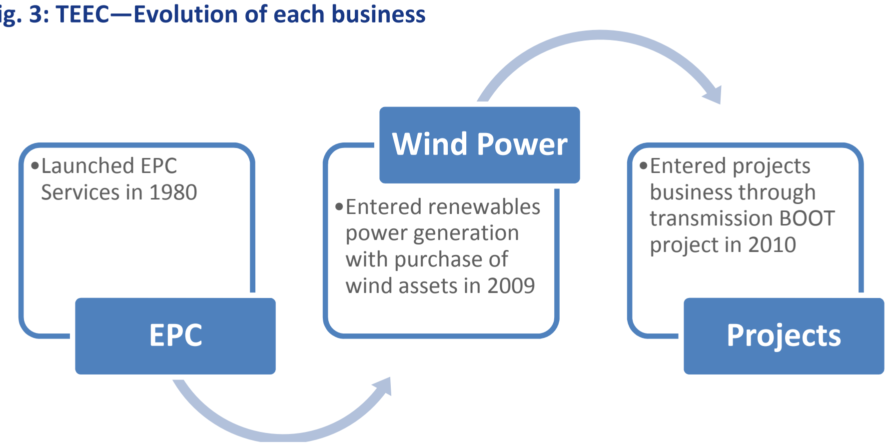
Delay in BOOT projects

BOOT projects entail execution delay risks, which can inflate total project cost. Execution delays could propel working capital requirement, dragging down overall profitability of projects and thus impact IRR. Further, inability to maintain the required network availability could impact revenue and profitability of projects.

Company Description

TEEC was incorporated in 1963 by the Mohankas to provide EPC services to core sector industries in India. The company went public in 1973. In 1983, it was taken over by Mr. P.P. Gupta and Mr. C.L. Chamaria. Mr. Gupta became the sole promoter of TEEC after Mr. Chamaria's resignation from the board in 1995. The company is headquartered in Kolkata. TEEC boasts of an experienced team of over 175 engineers backed by 225 skilled professionals and 100 staff members. More than 80% of the company's business comes from repeat customers, a testimony to its execution capability.

Fig. 3: TEEC—Evolution of each business



TEEC is a leading EPC services company in India's power sector and provides services to all the 3 industry segments—generation, transmission and distribution. It was involved in setting up (in one capacity or other) over 50% of the country's thermal power generation capacity and a major portion of the national power grid. It also possesses specific domain knowledge that enables it to serve the EPC needs of power, steel, fertiliser, metals and petrochemicals sectors, among others.

It ventured into renewable energy via acquisition of wind assets in 2009. Its total installed capacity currently stands at 162.9MW (having sold 44.45MW in May 2015) with 45MW in standalone entity and balance 117.9MW in subsidiary Simran Wind Projects (Simran).

In 2010, the company ventured into BOOT projects via the JV route as it bagged transmission project worth INR4.4bn in Haryana for a concession period of 25 years extendable by another 10 years. Subsequently, TEEC bagged another project worth INR2bn in Punjab in 2013. The company plans to extend / scale up this business further.

Fig. 4: Business structure

EPC	Wind	Projects
Generation	45 MW wind assets in standalone	BOOT project- Jhajjar KT Transco
Transmission		
Distribution	116.9 MW wind assets in Simran	BOOM project - Patran Transmission
Industrial		

Source: Company, Edelweiss research

Management Background

Mr. P. P. Gupta, Chairman and Managing Director

Mr. Gupta holds a Bachelors degree in Industrial Engineering and a Post Graduate degree in Business Management from the Indian Institute of Management, Ahmedabad. He was associated with the erstwhile Planning Commission, Government of India, as a Financial Analyst; Bharat Heavy Electricals as a Management Consultant and as an Advisor in the merchant banking division of the erstwhile ANZ Grindlays Bank, Kolkata. Mr. Gupta was the Vice President of Indian Electricals and Electronics Manufacturers Association (IEEMA) and has over 33 years of experience, including 28 years in the current capacity.

Mr. Ankit Saraiya, Non-Executive Director

Mr. Saraiya has been associated with TEEC as Non-Executive Director since February 2014. He is an Executive Director of Simran Wind, subsidiary of TEEC. Mr. Saraiya is a Bachelor of Science (Corporate Finance & Accounting) with Minor in Computer Information Systems from Bentley University in Waltham, Massachusetts, US. He has sound financial and commercial knowledge and has experience of more than 5 years in the related field.

Mr. P. K. Lohia, President–Finance

Mr. Lohia has been associated with TEEC since 2004 and has overall responsibility for Finance, Accounts and Taxation. He was previously employed with HNG as General Manager (Commercial). Mr Lohia is a Chartered Accountant by qualification with 20 years of experience in this field.

T&D investment to jump 52% to INR3.9tn over FY15-19

Industry Overview

T&D: Investments to catapult 52%; share in power pie to rise to 56%

Total investment in the power sector over the past 5 years (FY10-14) was INR6,500bn and is expected to increase to INR6,900bn over the following 5 years (FY15-19). Interestingly, investment in generation, which formed a lion's 61% share in total power sector investment during the past 5 year, is likely to decline to 44% and thus investment share of T&D is expected to rise from 39% to 56% over the same period. Total investment in T&D is likely jump significantly at 52% to INR3,864bn during FY15-19, while in transmission in particular it is expected to see a much sharper surge (up 75%).

Chart 12: Total investment in power sector during FY10-14

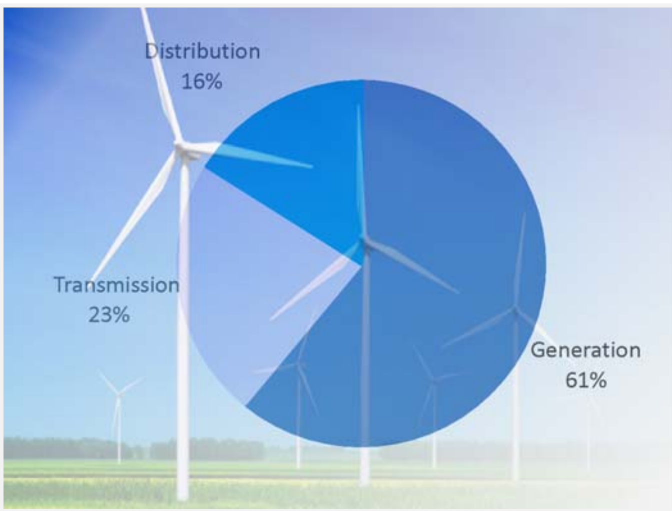
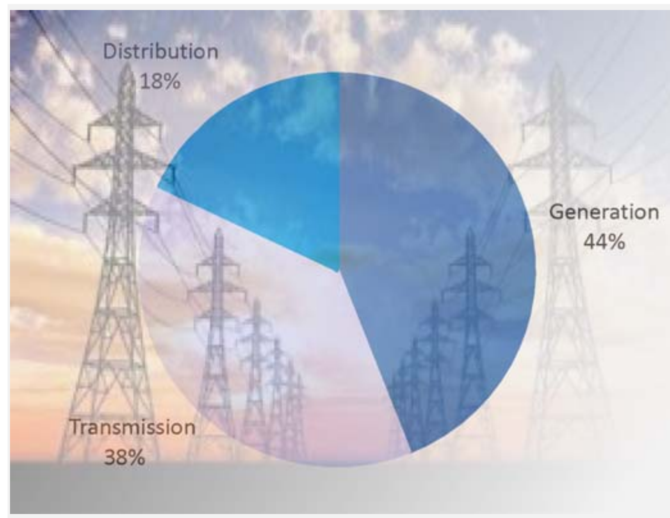


Chart 13: Investment planned in power sector in FY15-19



Source: CEA, Crisil, Edelweiss research

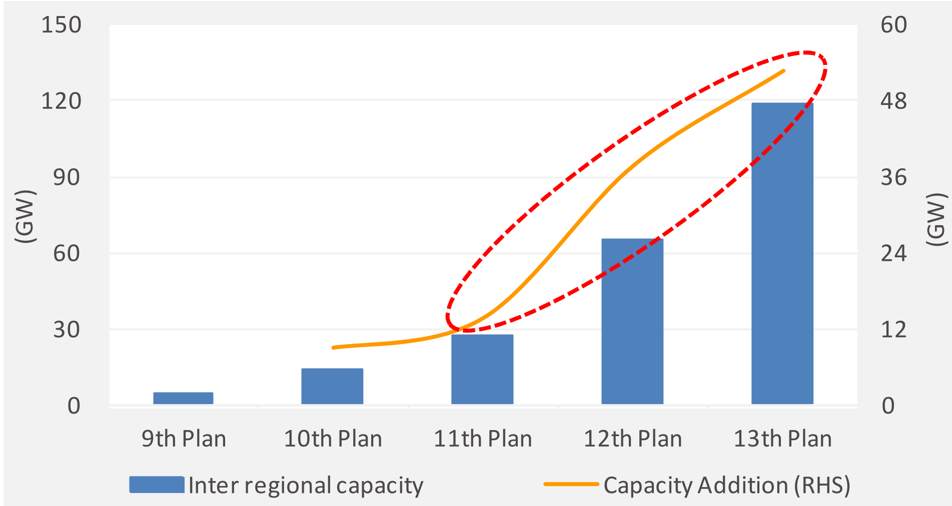
PGCIL focusing on enhancing inter-regional transmission capacity

Inter-regional transmission capacity augmentation underway

A robust pan-India transmission network, considering the dispersed power generation capacities, is the need of the hour. PGCIL, with ~90% share in India's inter-regional transmission capacity, is primarily responsible for national and regional capacity and connectivity addition. Having added 13.7GW inter-regional transmission capacity during the 10th Plan, capacity augmentation plans are higher during 12th and 13th Plans. With greater emphasis on improving inter-regional transmission capacity where the focus is on improved power quality, the government is planning to add 37.8GW and 52.8GW inter-regional transmission capacities during 12th and 13th Plans, respectively.

Sharpened focus on substations with emphasis to increase the share of 765kV system

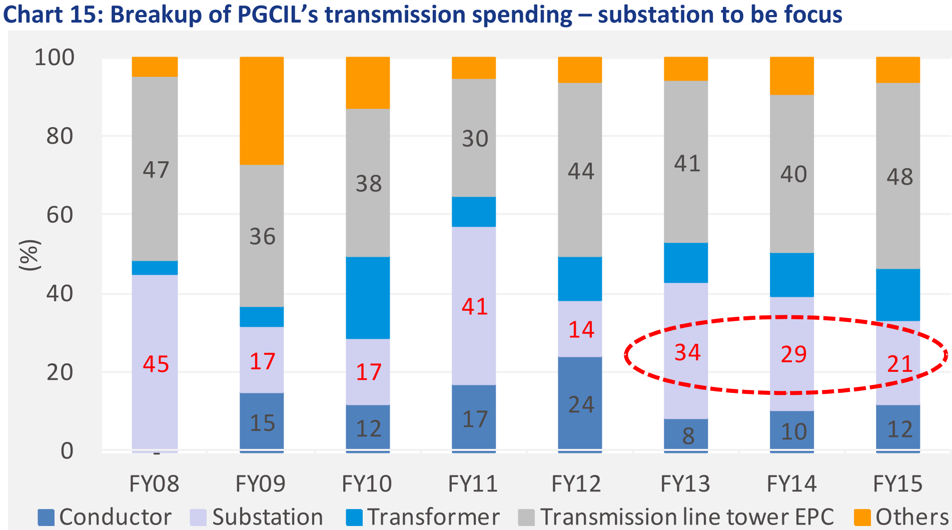
Chart 14: Inter-regional capacity augmentation during Plan periods



Source: CEA, Edelweiss research

Private sector participation has been tardy to add transmission network in the country given their focus towards power generation. With sharpening focus on investments in T&D, we expect the private sector to increase investments going forward in the transmission network and participate in T&D investments. This will provide significant opportunity for T&D equipment and EPC players.

Chart 15: Breakup of PGCIL's transmission spending – substation to be focus



Source: PGCIL, Edelweiss research

Thrust on quality of power; focus to improve share of 765kV system

AT&C losses in a transmission wane as voltage increases. Thus, the high capacity of 765kV technology can easily facilitate efficient and economical integration of large-scale generation projects into the nation's complex transmission grid. The 765kV system is expected to play a higher role in development of a National Grid due to its ability to efficiently deliver bulk power from clusters of generation projects with lower/reduced losses. Several new 765kV lines and sub stations have been planned for evacuation of bulk power in the 3-6GW range over longer distances.

Chart 16: Increase in higher range of equipment

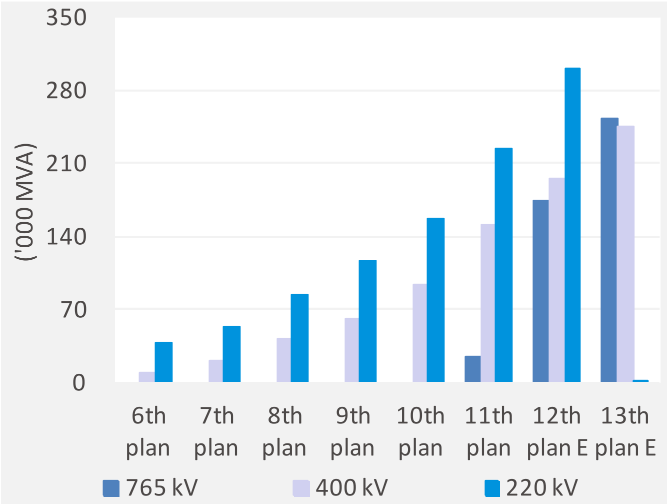
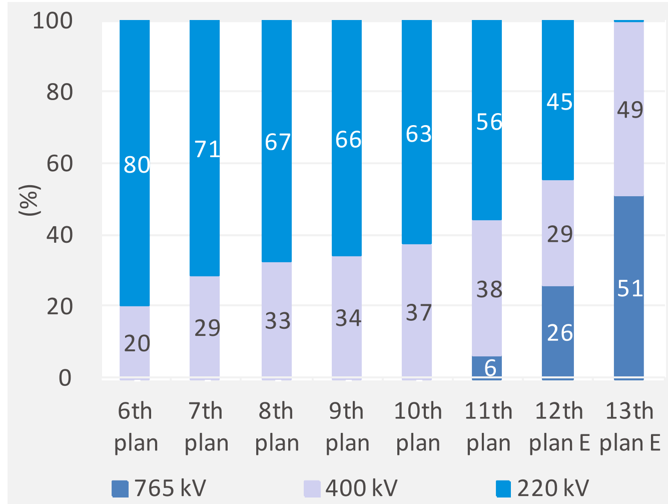


Chart 17: 765 kV systems – rising share

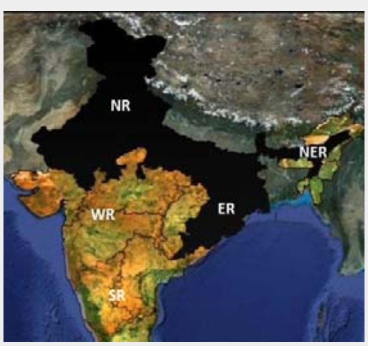


Source: CEA, PGCIL, Edelweiss research

At the end of 11th Plan, barely 6% of India's transmission network was operating at 765 kV of the total sub stations installed. Realising the importance of transmission at higher kV, while India is expected to double its installed sub stations, the proportion of 765 kV is expected to jump 5x to 30% of the overall transmission network.

Green Energy Corridors: To harness energy potential from renewables

Grid failure led to black out, affecting 3 major grids primarily due to over drawing of power



The massive black out in July 2012 seen in the entire North, East and North East grids saw government putting together plan to strengthen the distribution network to handle fluctuation which come from power from renewable. Various policies, regulatory and fiscal incentives have accelerated development of renewable energy (RE) generation in India. Currently, India has 32GW of installed renewable energy capacity. Within the 12th Plan alone, India plans to add ~41GW of additional RE capacity. RE resources are generally located in remote locations and confined in few states only. Strong grid infrastructure is needed to be sufficient to transport the RE to the load centres and maintain grid stability.

Further, distribution licensees in each state, Captive Power Plants (CPP) and Open Access Consumers must meet certain percent of their annual energy consumption through RE generation as part of their Renewable Purchase Obligations (RPO). In future scenarios, it is envisaged that home states would not be able to consume high cost RE power within the state beyond their RPO requirements and therefore RE power has to be transmitted to other states. Therefore, development of transmission system, both intra and inter-state transmission system to meet the needs of large scale renewable energy is paramount and thus require transmission infrastructure for the evacuation of power as identified in the comprehensive transmission plan – *'Green Energy Corridors'* prepared by PGCIL in 2012.

Germany has already committed development and technical assistance worth EUR1bn

Table 14: Estimated cost of proposed schemes

Particulars	Spending (INR bn)
Intra state transmission system strengthening (for 7 States)	204.7
Inter state transmission system strengthening	188.5
Others including energy storage	32.4
Total spending	**425.6**

Source: PGCIL, Edelweiss research

EPC revenue CAGR of 37% over FY15-17E; intake up 170% in FY15

TEEC to clock overall revenue CAGR of 32% over FY15-17E given robust order backlog and visibility

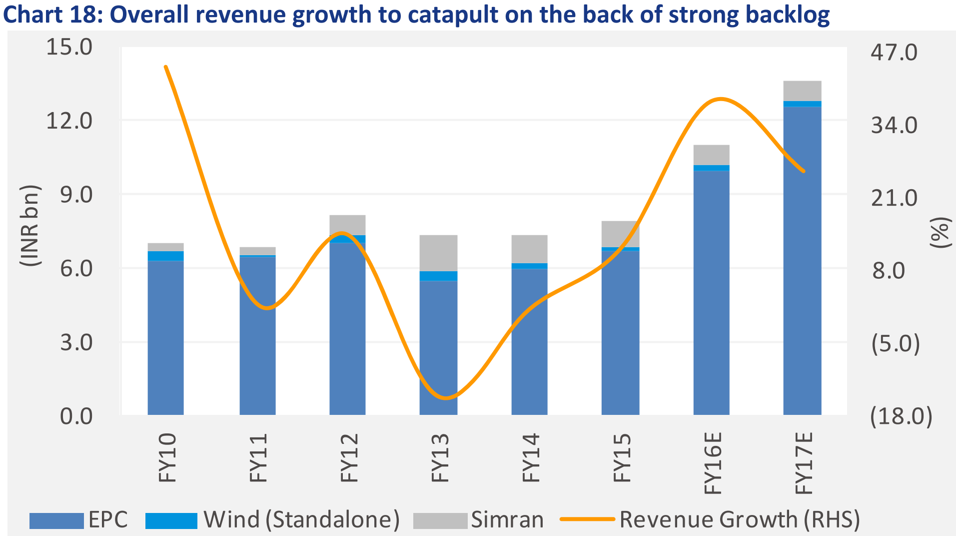
170bps margin expansion in EPC over FY14-17E

Financial Outlook

Robust EPC, recovering wind, BOOM projects to spur FY15-17 revenue

We anticipate robust order backlog to spur the EPC business' revenue CAGR at 37% over FY15-17E post lacklustre growth of ~1% between FY10 and FY15. Further, given robust EPC order pipeline in T&D from both PGCIL and SEBs, order inflow has catapulted over ~170% in FY15, translating into better revenue visibility for FY16E and FY17E. In the wind business, we expect the evacuation scenario to ease over time and thus estimate improved PLF at ~20% by FY17E, powering overall performance of the energy business even as the company is looking at exiting the wind business. Also, TEEC's Patran project will come on stream in FY17E and start contributing to revenue. Thus, overall, we estimate TEEC to clock revenue CAGR of 34% over FY15-17E.

Chart 18: Overall revenue growth to catapult on the back of strong backlog



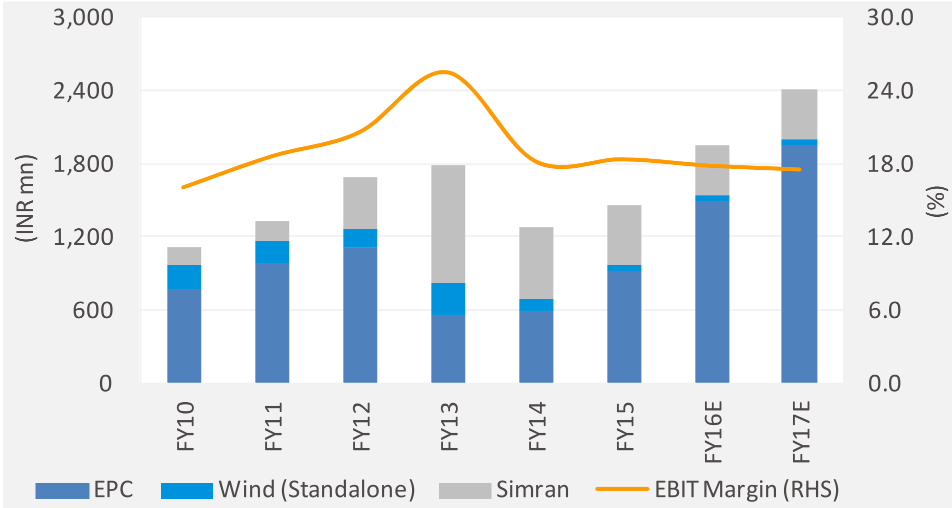
Source: Company, Edelweiss research

EPC to see operating leverage; improving PLF to aid overall profitability

We forecast ~170bps EBIT margin expansion in EPC over FY15-17E due to operating leverage as execution picks up given strong order backlog. Further, as evacuation bottlenecks alleviate in wind power in Tamil Nadu, we expect improvement in overall profitability in wind business, expecting improved valuation of its wind assets. Also, TEEC's strategy to bid for selective projects on BOOT basis augurs well for the company's EPC business as it recoups most of the equity investment (for BOOT project) via better profitability for its EPC arm.

Exit from wind business to further aid return ratios

Chart 19: EBIT improvement mainly by EPC businesses

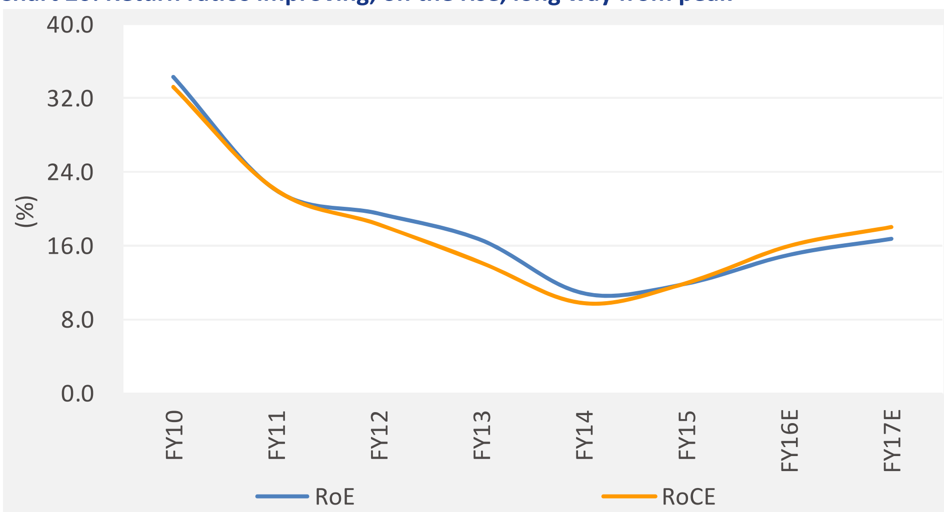


Source: Company, Edelweiss research

Overall earnings spurt to spur FY17 RoE

With uptick across businesses, we anticipate improvement in operating performance and earnings. Thus, we estimate RoE to improve from ~11% in FY14 to ~17% by FY17 driven by a combination of improved margin and asset turnover on account of increased PLF from the wind business. Similarly, we estimate RoCE to improve from ~10% in FY14 to ~18% by FY17.

Chart 20: Return ratios improving; on the rise, long way from peak



Source: Company, Edelweiss research

Table 15: Dupont analysis of RoE

Year to March	FY13	FY14	FY15	FY16E	FY17E
Net profit margin (%)	17.5	12.5	13.4	13.6	13.8
Total assets turnover (x)	0.5	0.5	0.6	0.7	0.8
Leverage multiplier (x)	1.8	1.7	1.6	1.5	1.5
RoE (%)	**16.6**	**10.8**	**11.9**	**15.0**	**16.7**

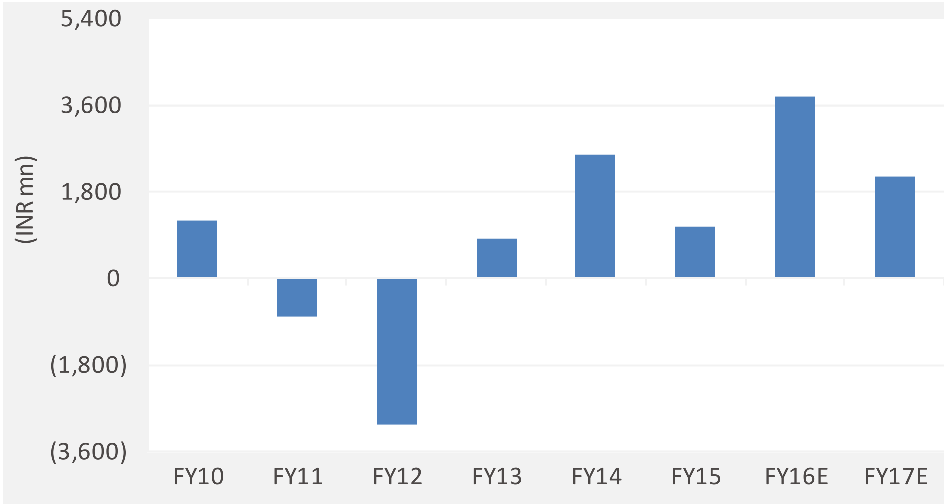
Source: Company, Edelweiss research

Improvemnet in EPC, part sale of wind assets to bolster cash flow

Strong profitability to aid steady cash flow generation; ~INR5.9bn free cash estimated over FY16-17E

Robust execution along with improvement in profitability of EPC business augurs well for the company. TEEC, with a strategy of bidding for BOOT projects where sizeable investment could be recouped in the first year via EPC contracts, is managing its near-term cash flows prudently. Annuity therein offers steady cash flow throughout a project's life. The company manages the EPC business' working capital requirement efficiently. However, the wind business continues to remain a drag on working capital due to elongated receivable cycle. During FY16-17E, we estimate the company to generate over ~INR5.9bn free cash as we anticipate marginal improvement in the receivables position in the wind business including proceeds (INR2bn) from sale of wind assets in May-15.

Chart 21: Free cash flow generation set for an uptick



Source: Edelweiss research

Annexure 1

Landmark events in transmission sector

The transmission network has been developed in tandem with growth in generation capacity. Growth in transmission system is characterised by physical growth in transmission network as well as introduction of higher transmission voltages and new technologies for bulk power transmission. Major events of this growth are illustrated below:

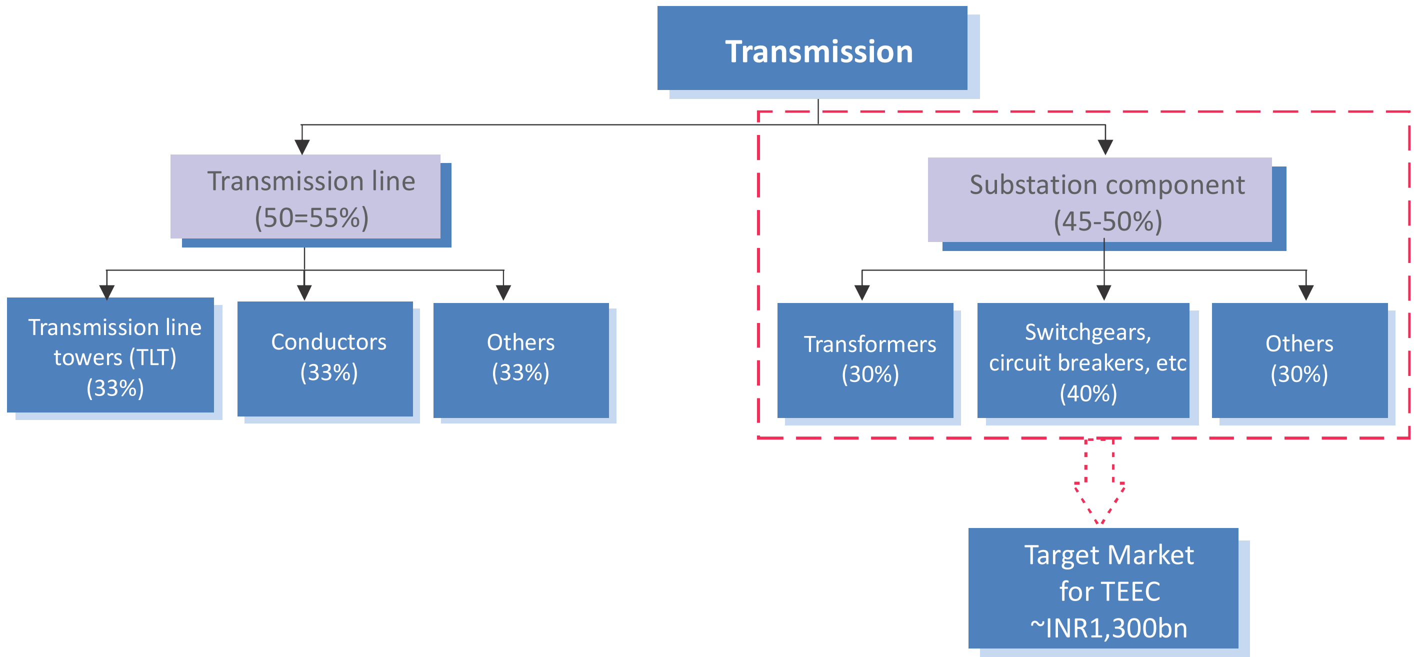
Fig. 5: Important landmark events in transmission sector

1948	Electricity (Supply) Act, 1948
1950-60	Growth of State Grids and introduction of 220kV voltage level
1964	Constitution of Regional Electricity Boards
1965-73	Interconnecting State Grids to form Regional Grid systems
1977	Introduction of 400kV voltage level
1980-88	Growth of Regional Grid Systems as associated transmission system with Central Sector generation
1989	HVDC back-to-back System
1990	Introduction of HVDC bi-pole line
1997	Synchronous inter-connection of ER and NER
1999	Transmission planning re-oriented towards all-India system
2000	Introduction of 765kV transmission line (initially charged at 400kV)
2003	Electricity Act, 2003
2004	Open access in transmission
2006	Synchronous inter-connection of NR with ER-NER-WR system
2007	765kV operation of Sipat Substation
2007	765kV operation of 765kV transmission lines
2010	Notification of POSOCO – for operation of RLDCs/NLDC as a separate organisation form CTU
2011	Implementation of point-of-connection based method for sharing transmission charges and losses across the country

Source: CEA, Industry, Edelweiss research

Annexure 2

Fig. 6: Transmission spending provides an opportunity of INR1.3tn from overall opportunity of INR2.6tn



Source: Edelweiss research

Annexure 3 – Rising thrust on higher voltage lines and systems

Table 16: Progress in transmission in India

Plan Period	+/- 500 kV HVDC				765 kV				400 kV				220 kV				Grand
(MW/MVA)	Central	State	Pvt	Total	Central	State	Pvt	Total	Central	State	Pvt	Total	Central	State	Pvt	Total	Total
6th Plan	-	-	-	-	-	-	-	-	0.7	8.6	-	9.3	0.5	36.8	-	37.3	**46.6**
7th Plan	-	-	-	-	-	-	-	-	6.8	14.8	-	21.6	1.9	51.9	-	53.7	**75.3**
8th Plan	-	-	-	-	-	-	-	-	17.3	23.5	-	40.9	2.6	81.6	-	84.2	**125.0**
9th Plan	3.5	1.7	-	5.2	-	-	-	-	23.6	36.8	-	60.4	2.9	113.5	-	116.4	**181.9**
10th Plan	6.5	1.7	-	8.2	-	-	-	-	40.5	52.5	-	92.9	4.3	152.2	-	156.5	**257.6**
11th Plan	8.3	1.5	-	9.8	24.0	1.0	-	25.0	77.2	73.2	0.6	151.0	6.4	215.8	1.6	223.8	**409.6**
12th Plan (upto Mar-15)	9.5	1.5	2.5	13.5	100.5	9.0	12.0	121.5	99.2	92.6	0.6	192.4	8.2	258.9	1.6	268.7	**596.1**

Source: CEA, Edelweiss research

Note: All above MW/MVA nos in '000

Annexure 4 – Marquee Clients

Fig. 7: Power sector

NATIONAL HYDRO ELECTRIC POWER	GRIDCO	APTRANSCO LIMITED	NTPC	BHEL	UPPCL	DVC	DELHI VIDYUT BOARD
ELECTROSTEEL CASTINGS LIMITED	GE TECHNICAL SERVICES, USA	POWER GRID CORPORATION	HARYANA POWER	LANCO	MSEB	TAMIL NADU ELECTRICITY BOARD	WEST BENGAL STATE ELECTRICITY BOARD
ORISSA POWER GENERATION	ALSTOM	RELIANCE ENERGY	THERMAX LIMITED	CESC	ABB LIMITED	ELECTROSTEEL CASTINGS LIMITED	ASEB

Source: Company

Fig.8: Petrochemical and refinery sector

HALDIA PETROCHEMICALS LIMITED	INDIAN OIL CORPORATION LIMITED	INDIAN PETROCHEMICALS CORPORATION LIMITED
BINA OMAN (BINA)	HPML (BHATINDA)	

Fig.9: Aluminium sector

BHARAT ALUMINIUM COMPANY LIMITED	NATIONAL ALUMINIUM COMPANY LIMITED
HINDALCO INDUSTRIES LIMITED	VEDANTA ALUMINIUM LIMITED

Source: Company

Financial Statements

Key assumptions

Year to March	FY14	FY15	FY16E	FY17E
Macros				
GDP(Y-o-Y %)	6.9	7.4	8.0	8.7
Inflation (Avg)	9.5	6.7	5.0	5.0
Repo rate (exit rate)	8.0	7.5	6.8	6.5
USD/INR (Avg)	60.5	61.0	62.0	62.0
Key financial assumptions				
EPC business				
Order intake growth (%)	44.9	85.8	15.0	15.0
Revenue growth (%)	7.9	12.5	48.5	26.3
EBIT Margins (%)	10.0	13.8	15.0	15.5
Wind business				
Wind capacity (MW)	207	207	162	162
PLF (%)	19.4	18.0	18.0	18.0
Capex (INR mn)	54	(36)	(2,000)	150

Income statement- consolidated (INR mn)

Year to March	FY14	FY15	FY16E	FY17E
Income from operations	7,085	7,939	10,988	13,821
Materials costs	4,260	5,021	7,472	9,508
Employee cost	290	274	324	373
Other manufacturing exp.	607	562	660	766
Total operating expenses	5,157	5,857	8,455	10,648
EBITDA	1,928	2,082	2,533	3,174
Depreciation& amortisation	667	603	534	631
EBIT	1,261	1,478	1,999	2,542
Interest expense	454	431	450	560
Other income	120	202	388	497
Add: Exceptional items	2	1	-	-
Profit before tax	929	1,251	1,937	2,479
Provision for tax	38	185	444	574
Less: Minority Interest	12	10	6	7
Reported Profit	879	1,055	1,487	1,898
Less: Excep. Items (Net of Tax)	2	1	-	-
Adjusted profit	877	1,054	1,487	1,898
Eq. shares outstanding (mn)	57	57	57	57
Adjusted Basic EPS	15.4	18.5	26.0	33.2
Diluted shares (mn)	57	57	57.1	57
Adjusted Diluted EPS	15.4	18.5	26.0	33.2
CEPS (INR)	27.1	29.0	35.4	44.3
DPS	3.0	4.0	4.0	4.0
Dividend payout (%)	22.8	25.4	18.4	14.4

Common size metrics- as % of net revenues

Year to March	FY14	FY15	FY16E	FY17E
Operating expenses	72.8	73.8	77.0	77.0
Material cost	60.1	63.3	68.0	68.8
Employee cost	4.1	3.4	2.9	2.7
Other manufacturing exp	8.6	7.1	6.0	5.5
Depreciation & amortisation	9.4	7.6	4.9	4.6
Interest expenditure	6.4	5.4	4.1	4.1
EBITDA margins	27.2	26.2	23.0	23.0
Net profit margins	12.5	13.4	13.6	13.8

Growth metrics (%)

Year to March	FY14	FY15	FY16E	FY17E
Revenues	1.2	12.1	38.4	25.8
EBITDA	(17.9)	8.0	21.7	25.3
Adjusted Profit	(27.2)	20.2	41.0	27.7
EPS	(27.2)	20.2	41.0	27.7

Balance sheet				(INR mn)
As on 31st March	FY14	FY15	FY16E	FY17E
Equity capital	114	114	114	114
Reserves & surplus	8,257	9,033	10,246	11,870
Shareholders funds	8,371	9,147	10,360	11,984
Minority Interest	193	199	205	212
Long term borrowings	4,785	3,967	4,467	4,967
Short term borrowings	614	757	757	757
Total Borrowings	5,399	4,725	5,225	5,725
Deferred tax liability/asset	9	7	7	7
Long term lia. & provisons	514	185	185	185
Sources of funds	**14,486**	**14,262**	**15,981**	**18,113**
Gross Block	13,250	13,362	11,362	11,512
Net Block	10,536	10,045	7,511	7,030
Capital work in progress	36	45	45	45
Intangibles	157	157	157	157
Total Fixed Assets	10,729	10,247	7,713	7,232
Non current investments	384	380	830	1,080
Inventories	118	64	205	260
Sundry debtors	2,060	3,449	4,515	5,642
Cash and cash equivalents	1,966	1,215	4,315	5,849
Loans and advances	949	1,057	1,215	1,361
Other current assets	290	404	404	404
Total current assets (ex cash)	3,418	4,974	6,339	7,668
Trade payable	1,067	1,368	1,894	2,393
Other Current Liab. & ST Prov.	946	1,185	1,322	1,322
Total current lia. & prov.	2,012	2,553	3,216	3,715
Net current assets	1,406	2,421	3,123	3,953
Uses of funds	**14,486**	**14,262**	**15,981**	**18,113**
Book value per share (INR)	147	160	181	210

Free cash flow				(INR mn)
Year to March	FY14	FY15	FY16E	FY17E
Reported Profit	879	1,055	1,487	1,898
Add: Depreciation	667	603	534	631
Interest (Net of Tax)	36	158	342	441
Add: Others	394	283	114	126
Less:Changes In Wor. Capital	(632)	1,052	703	829
Opertaing cash flow	2,608	1,048	1,774	2,267
Less: Capex	54	(36)	(2,000)	150
Free cash flow	**2,554**	**1,084**	**3,774**	**2,117**

Cash flow metrics				(INR mn)
Year to March	FY14	FY15	FY16E	FY17E
Operating cash flow	2,608	1,048	1,774	2,267
Financing cash flow	(1,710)	(1,373)	(224)	(334)
Investing cash flow	(1,135)	40	1,550	(400)
Net cash flow	(237)	(285)	3,100	1,533
Capex	(54)	36	2,000	(150)
Dividend paid	-	(268)	(274)	(274)

Profitability & liquidity ratios

Year to March	FY14	FY15	FY16E	FY17E
ROAE (%)	10.8	11.9	15.0	16.7
ROACE (%)	9.8	12.0	16.0	18.0
Inventory (days)	6	7	7	9
Debtors (days)	132	127	132	134
Payable (days)	92	88	80	82
Cash conversion cycle (days)	46	45	59	61
Current ratio (x)	1.7	1.9	2.0	2.1
Debt/EBITDA (x)	2.8	2.3	2.1	1.8
Interest cover (x)	2.8	3.4	4.4	4.5
Gross Debt/Equity (x)	0.6	0.5	0.5	0.5
Adjusted Debt/Equity (x)	0.6	0.5	0.5	0.5

Operating ratios

Year to March	FY14	FY15	FY16E	FY17E
Fixed assets turnover (x)	1.3	1.5	2.5	3.7
Total asset turnover(x)	0.5	0.6	0.7	0.8
Equity turnover(x)	1.7	1.8	2.2	2.4

Valuation parameters

Year to March	FY14	FY15	FY16E	FY17E
Diluted EPS (INR)	15.4	18.5	26.0	33.2
Y-o-Y growth (%)	*(27.2)*	*20.2*	*41.0*	*27.7*
CEPS (INR)	27.1	29.0	35.4	44.3
Diluted P/E (x)	32.6	27.1	19.2	15.1
Price/BV(x)	3.4	3.1	2.8	2.4
EV/Sales (x)	4.5	4.1	2.7	2.1
EV/EBITDA (x)	16.7	15.5	11.7	9.0
Dividend yield (%)	0.6	0.8	0.8	0.8

Peer comparision valuations

			PE (x)		P/BV (x)		ROE (%)	
Name of the companies	CMP	Market cap (INR bn)	2016E	2017E	2016E	2017E	2016E	2017E
KEC International	140	36.0	21.1	13.6	2.5	2.1	12.3	16.8
Kalpataru Power (SA)	232	41.1	18.9	14.0	1.6	1.5	9.0	11.0
Nagarjuna Construction	82	45.5	25.4	14.8	1.3	1.2	4.6	8.0
KNR Construction	581	16.3	21.0	15.2	2.3	2.0	10.1	11.4
J Kumar Infra	753	24.2	18.9	13.2	2.7	2.2	14.6	18.9
Simplex Infra	393	8.4	25.7	11.8	1.2	1.1	6.7	12.1
TEEC	501	28.5	19.2	15.1	2.8	2.4	15.0	16.7

Source: Bloomberg, Edelweiss research

Additional Data

Directors Data

Mr. P.P. Gupta	Managing Director	Mr. Ankit Saraiya	Promoter –Non Executive Director
Mr. K.M.Poddar	Non Executive Director	Mr. V.D. Mohile	Non Executive Director
Mr. K.Vasudevan	Non Executive Director	Mr. K. K. Rai	Non Executive Director
Mr. S. N. Roy	Non Executive Director		

Auditors - S.R. Batliboi & Co. LLP

**as per last annual report*

Holding - Top 10

	Perc. Holding		Perc. Holding
DSP Blackrock	4.3	Prudential PLC	3.4
SBI MF	3.2	L&T Investment	3.2
Max New York Life	2.4	Tata Asset Managmenet	1.3
GMO	1.7	Kotak MF	0.9
HDFC MF	0.8	Canara Robeco	0.5

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
ABB India	REDUCE	SU	L	Bajaj Electricals	HOLD	SP	M
Bharat Forge	BUY	SO	L	Bharat Heavy Electricals	HOLD	SP	M
Crompton Greaves	HOLD	SP	M	Cummins India	BUY	SO	L
Greaves Cotton	BUY	SO	M	Havells India	BUY	SO	M
Kalpataru Power	BUY	SO	M	KEC International	HOLD	SP	M
Larsen & Toubro	BUY	SO	M	Praj Industries	BUY	None	None
Siemens	REDUCE	SP	L	TD Power Systems	BUY	None	None
Thermax	BUY	SP	L	Triveni Turbine	BUY	None	None
VA Tech Wabag	BUY	None	None	Voltas	BUY	SO	L

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss
Ideas create, values protect

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Coverage group(s) of stocks by primary analyst(s): Engineering and Capital Goods

ABB India, Bharat Heavy Electricals, Bharat Forge, Bajaj Electricals, Crompton Greaves, Greaves Cotton, Havells India, KEC International, Cummins India, Kalpataru Power, Larsen & Toubro, Praj Industries, Siemens, TD Power Systems, Thermax, Triveni Turbine, VA Tech Wabag, Voltas

Recent Research

Date	Company	Title	Price (INR)	Recos
30-Jun-15	**Bajaj Electricals**	Stable E&P helps shift focus to consumer; *Visit Note*	273	Hold
12-Jun-15	**Suzlon Energy**	Enthused by sector uptick; Setting the house in order; *Visit Note*	21	Not Rated
04-Jun-15	**Sanghvi Movers**	At the cusp of broad-based cyclical recovery; *Visit Note*	306	Not Rated

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	155	45	8	208

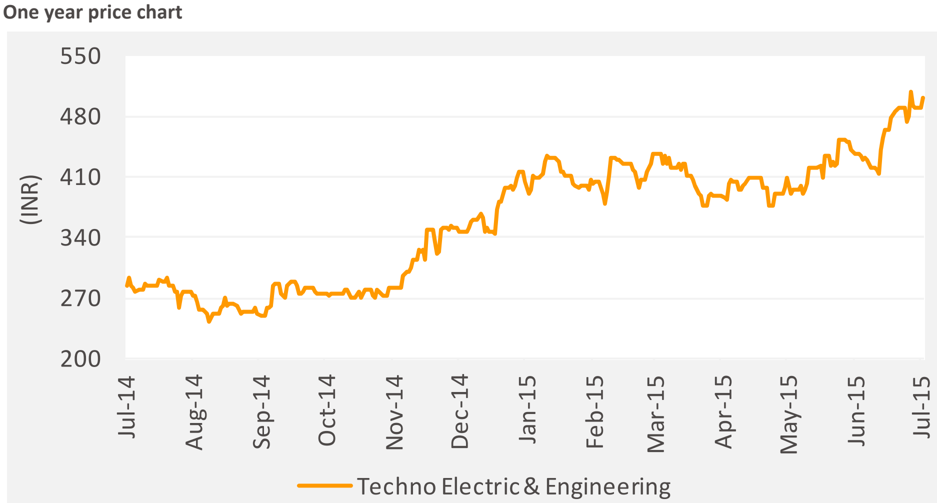
* stocks under review

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	151	54	3

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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