

EPC: The knight in shining armor

Techno Electric (TEEC) posted strong 1Q16 results as EPC segment reported sales/EBIT growth of 25%/55% YoY on strong execution and 250bps margin expansion. Wind segment reported weak numbers, thus restricting consolidated sales growth to 10%, while adjusted net profit declined by 16% YoY. We believe sale of wind assets (by end-FY16) and strong order book of ₹21bn (3.1x TTM sales) will continue to help deliver outperformance. We maintain BUY with revised target of ₹600, as we roll forward to Sep'16.

- Healthy execution at EPC project drives margins:** Consolidated net sales increased by 10% YoY to ₹2bn, as robust 25% sales growth in EPC segment overshadowed weakness in wind segment, where revenue declined by 42% YoY (excluding impact of asset sale). TEEC sold 22% of its wind capacity (45MW) in May'15, thus revenues were expected to be lower, but a fall in PLFs due to low wind velocity in May'15 further aggravated the fall. Operating margins declined 650bps YoY, but they do not represent a clear picture due to inclusion of wind energy profits (which are volatile). EPC segment margins expanded 250bps YoY to 12.9% on healthy execution. Adjusting for ₹254mn (gain on sale of 45MW wind asset), net profit declined by 16% YoY to ₹200mn.
- Order book stands strong at ₹22bn, 3.1x TTM sales:** TEEC's order book stood at ₹21bn, 3.1x TTM sales as it won a STATCOM order, in consortium with Rongxin, valued at ₹2.7bn. It is amongst first in a series of such orders to be released in future. Management expects a total of 50 STATCOM projects to be awarded over next 3-5 years totaling ₹80bn of investment opportunity, where initial set of orders will be placed by PGCIL, Telangana, WB and TN.
- Strike rate in niche projects to improve:** TEEC is favorably placed to capitalize on orders in niche areas of STATCOM, HVDC and GIS, where competition is restricted to 3-4 large players due to higher complexity of these projects. Further, BOOT projects worth ₹1,000bn are slated to be ordered in near term, which enhances prospects of TEEC on efficient cash utilization and a consistent source of inflows for parent entity.
- Maintain BUY with revised TP of ₹600:** We maintain BUY as we expect EPC segment earnings to deliver 22% CAGR over FY15-18E, driven by strong order book of ₹21bn (3x TTM sales). Any BOOT project win in next 12-18 months will present further EPC opportunities to parent. Our revised TP stands at ₹600 as we roll forward to Sep'16.

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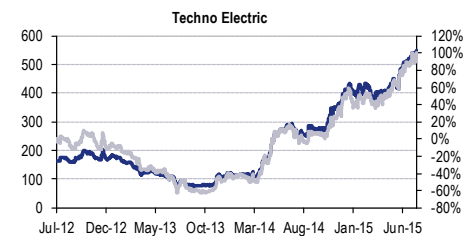
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Key Data

Market cap (bn)	₹ 30.0 / US\$ 0.5
Shares in issue (mn)	57.1
Diluted share (mn)	57.1
3-mon avg daily val (mn)	₹ 37.5/US\$ 0.6
52-week range	₹ 560.0/236.8
Sensex/Nifty	27,866/8,462
₹/US\$	64.2

Daily Performance



%	1M	3M	12M
Absolute	2.2	31.4	105.6
Relative	1.5	30.1	96.4

* To the BSE Sensex

Shareholding Pattern (%)

	Jun-15	Jun-14
Promoters	58.0	58.0
FII	6.6	6.0
DII	14.8	1.5
Public / Others	20.6	34.5

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. Financial Summary

Y/E March	FY14A	FY15A	FY16E	FY17E	FY18E
Net sales	7,085	7,939	9,990	11,938	12,797
Sales growth (%)	1.2	12.1	25.8	19.5	7.2
EBITDA	1,925	2,080	2,266	2,609	2,792
EBITDA (%)	27.2	26.2	22.7	21.9	21.8
Adjusted net profit	875	1,051	1,365	1,655	1,849
EPS (₹)	15.3	18.4	23.9	29.0	32.4
EPS growth (%)	-27.3	20.1	29.9	21.2	11.7
ROIC (%)	9.5	9.9	12.3	15.5	16.5
ROE (%)	10.9	12.0	13.8	14.7	14.6
PE (x)	34.3	28.6	22.0	18.1	16.2
Price/Book value (x)	3.6	3.3	2.8	2.5	2.2
EV/EBITDA (x)	17.5	16.4	13.3	11.2	9.9

Source: Company data, JM Financial. Note: Valuations as of 11/08/2015

Exhibit 2. SOTP Valuation

Business	Valuation basis	PAT/BV/NPV (₹mn)	Value/sh (₹)
EPC segment	20x Sep'17 PAT	1,122	393
Wind business	0.9x invested equity for 163MW	4,598	74
Jhajjar BOOT	NPV	1,955	17
Patran BOOM	NPV	1,046	18
Cash+invst	1x Sep'16E cash	5,576	98
		Target Price	600

Source: JM Financial

Exhibit 3. Quarterly performance - Consolidated

									(₹mn)
Y/E March	1QFY15	1QFY16	% YoY	1QFY16E	% YoY E	FY14	FY15	% YoY	
Net Sales	1,832	2,015	10.0	2,015	10.0	7,085	7,939	12.1	
Expenditure	1,303	1,565	20.1	1,537	18.0	5,157	5,858	13.6	
EBITDA	529	450	-14.9	478	-9.7	1,928	2,081	8.0	
EBITDA (%)	28.9	22.3	-650bps	23.7	-520bps	27.2	26.2	-100bps	
Other income	22	39	76.3	22	0.0	115	201	74.8	
Depreciation	172	119	-30.7	102	-40.7	667	603	-9.5	
EBIT	379	370	-2.4	398	5.0	1,376	1,679	22.0	
Interest	110	89	-19.6	93	-15.8	454	431	-5.1	
PBT before Eol	269	281	4.6	305	13.5	922	1,248	35.4	
Extraordinary item	0	254		470		0	0		
PBT after Eol	269	535	99.1	775	188.2	922	1,248	35.4	
Tax	32	158	399.5	116	267.8	38	185	392.5	
<i>Tax rate (%)</i>	<i>11.8</i>	<i>29.5</i>		<i>15.0</i>		<i>4.1</i>	<i>14.8</i>		
Tax on Eol (assumed)	0	76		94		0	0		
PAT before MI/SA	237	377	59.1	659	177.6	884	1,063	20.2	
Minority/Share of associates									
Reported PAT	237	377	59.1	659	177.6	884	1,063	20.2	
Reported EPS (₹)	4.2	6.6	59.1	11.5	177.6	15.5	18.6	20.2	
Adjusted PAT	237	200	-15.9	283	19.2	884	1,063	20.2	
Adjusted EPS (₹)	4.2	3.5	-15.9	5.0	19.2	15.5	18.6	20.2	

Source: Company, JM Financial

Exhibit 4. Cost break-up - Consolidated

									(₹mn)
Y/E March	1QFY15	1QFY16	% YoY	1QFY16E	% YoY E	FY14	FY15	% YoY	
COGS	1,125	1,335	18.7	1,249	11.0	4,260	5,022	17.9	
<i>as a % of sales</i>	<i>61.4</i>	<i>66.3</i>	<i>480bps</i>	<i>62.0</i>	<i>60bps</i>	<i>60.1</i>	<i>63.3</i>	<i>310bps</i>	
Staff Cost	63	69	9.3	66	5.0	290	274	-5.7	
<i>as a % of sales</i>	<i>3.4</i>	<i>3.4</i>	<i>0bps</i>	<i>3.3</i>	<i>-20bps</i>	<i>4.1</i>	<i>3.4</i>	<i>-60bps</i>	
Other Expenditure	115	161	40.3	222	93.0	607	562	-7.4	
<i>as a % of sales</i>	<i>6.3</i>	<i>8.0</i>	<i>170bps</i>	<i>11.0</i>	<i>470bps</i>	<i>8.6</i>	<i>7.1</i>	<i>-150bps</i>	

Source: Company, JM Financial

Exhibit 5. Segmental performance – Consolidated				(₹mn)		
Y/E March	1QFY15	1QFY16	% YoY	FY14	FY15	% YoY
Revenue						
EPC (Construction)	1,424	1,779	25.0	5,705	6,681	17.1
<i>% of net sales</i>	<i>76.5</i>	<i>86.3</i>		<i>79.2</i>	<i>82.1</i>	
Energy (Power)	408	236	-42.3	1,380	1,258	-8.8
<i>% of net sales</i>	<i>21.9</i>	<i>11.4</i>		<i>19.2</i>	<i>15.5</i>	
Corporate	30	46	53.8	120	202	68.8
<i>% of net sales</i>	<i>1.6</i>	<i>2.2</i>		<i>1.7</i>	<i>2.5</i>	
EBIT						
EPC (Construction)	148	229	54.9	593	924	55.9
<i>% EBIT</i>	<i>10.4</i>	<i>12.9</i>	<i>250bps</i>	<i>10.4</i>	<i>13.8</i>	<i>340bps</i>
Energy (Power)	201	95	-52.9	666	553	-17.0
<i>% EBIT</i>	<i>49.3</i>	<i>40.3</i>	<i>-910bps</i>	<i>48.3</i>	<i>43.9</i>	<i>-430bps</i>
Corporate	30	46	53.8	120	202	68.8
<i>% EBIT</i>	<i>100.0</i>	<i>100.0</i>	<i>0bps</i>	<i>100.0</i>	<i>100.0</i>	<i>0bps</i>

Source: Company, JM Financial

Background

- Techno Electric and Engineering (TEE), a niche player in T&D market, will be a prime beneficiary of pick up in T&D capex over next 3-5 years. It was incorporated in 1963 and is headquartered in Kolkata. The company has presence in 3 different business i.e. transmission and distribution EPC (80%), transmission projects under PPP model (negligible contribution currently) and renewable energy generation (20%) with a cumulative capacity of 162MW (45 MW being sold recently).

Exhibit 6. Revenue Variables

Y/E March	FY14A	FY15A	FY16E	FY17E	FY18E
(₹mn)					
EPC segment					
Order inflow growth (%)	36.2%	93.8%	-15.0%	0.0%	10.0%
Execution rate (months)	21	22	27	26	26
Sales	5,705	6,681	8,964	10,860	11,719
YoY (%)	10.6%	17.1%	34.2%	21.1%	7.9%
EBIT Margin (%)	10.4%	13.8%	14.0%	14.5%	15.0%
Wind power segment					
Capacity (MW)	207	207	163	163	163
PLF (%)	19%	17%	18%	19%	19%
Revenue	1,380	1,258	1,026	1,078	1,078
YoY (%)	-25.1%	-8.8%	-18.5%	5.1%	0.0%
EBIT Margin (%)	48.3%	43.9%	45.0%	45.0%	45.0%

Source: Company, JM Financial

Investment Rationale

- Quality play on transmission sector spends:** TEE's EPC division is poised to deliver 21%/22% sales/net profit growth over FY15-18E, given its robust order book position of ₹21bn (3.1x TTM sales). Order inflow outlook remains strong on increased T&D spending (up 2.1x in 12th Plan), increasing BOOT project opportunities and foray in international markets.
- Pips peer EPC companies on profitability parameters:** Given TEE's vast experience working with PGCIL and SEBs, it is able to cherry pick orders with better profitability (prudent cost management), low execution risk (better local terrain knowledge) and low receivable risk (undertakes projects funded by multilateral agencies). TEE's EPC division EBITDA margin/RoCE at 14%/21% is significantly above EPC industry average of 7%/9%.
- Buildup of BOOT portfolio to stabilize earnings; wind PLF uptick provides additional trigger:** With already 2 BOOT projects in hand, TEE is targeting to add at least 1 BOOT project per year, cumulating to a portfolio of 3-4 projects by FY17. While our consolidated estimates do not factor any improvement in wind segment EBIT, we believe wind assets will be hived off in FY16, thus improving RoEs.

Key Risks

- Delays in implementation schedule:** Transmission projects are usually susceptible to delays given hurdles faced in form of land acquisition and delayed payments by SEBs. Delays in commissioning of capacities may lead to an extension in implementation schedule and thus lower revenue booking for the company and increase costs.
- Working capital risks:** Working capital requirement may increase in an event of delayed payments by PGCIL/SEBs. However, TEE has been very selective in cherry picking orders with multilateral funding, thus mitigating this risk to a large extent. TEE's working capital was also affected in FY15 due to increase in receivables and lower advances on new orders.

Financial Tables (Consolidated)

Profit & Loss Statement					
	(₹ mn)				
Y/E March	FY14A	FY15A	FY16E	FY17E	FY18E
Net sales (Net of excise)	7,085	7,939	9,990	11,938	12,797
Growth (%)	1.2	12.1	25.8	19.5	7.2
Other operational income	0	0	0	0	0
Raw material (or COGS)	4,260	5,022	6,194	7,401	7,934
Personnel cost	290	274	287	317	349
Other expenses (or SG&A)	609	563	1,243	1,610	1,721
EBITDA	1,925	2,080	2,266	2,609	2,792
EBITDA (%)	27.2	26.2	22.7	21.9	21.8
Growth (%)	-17.9	8.0	8.9	15.1	7.0
Other non-op. income	120	202	372	391	411
Depreciation and amort.	667	603	549	549	549
EBIT	1,379	1,679	2,089	2,451	2,654
Add: Net interest income	-454	-431	-367	-312	-265
Pre tax profit	924	1,248	1,722	2,139	2,389
Taxes	38	185	438	471	526
Add: Extraordinary items	0	0	470	0	0
Less: Minority interest	12	12	13	13	14
Reported net profit	875	1,051	1,741	1,655	1,849
Adjusted net profit	875	1,051	1,365	1,655	1,849
Margin (%)	12.3	13.2	13.7	13.9	14.5
Diluted share cap. (mn)	57	57	57	57	57
Diluted EPS (₹)	15.3	18.4	23.9	29.0	32.4
Growth (%)	-27.3	20.1	29.9	21.2	11.7
Total Dividend + Tax	203	273	303	337	371

Source: Company, JM Financial

Balance Sheet					
	(₹ mn)				
Y/E March	FY14A	FY15A	FY16E	FY17E	FY18E
Share capital	114	114	114	114	114
Other capital	0	0	0	0	0
Reserves and surplus	8,257	9,033	10,471	11,790	13,269
Networth	8,371	9,147	10,585	11,904	13,383
Total loans	6,077	5,649	3,174	2,539	2,031
Minority interest	193	199	199	199	199
Sources of funds	14,641	14,996	13,958	14,642	15,613
Intangible assets	0	0	0	0	0
Fixed assets	13,404	13,492	12,142	12,492	12,842
Less: Deprn. and amort.	2,711	3,283	3,832	4,382	4,931
Net block	10,693	10,209	8,310	8,110	7,911
Capital WIP	36	38	38	38	38
Investments	1,870	1,347	1,347	1,347	1,347
Def tax assets/- liability	-9	-7	-7	-7	-7
Current assets	3,899	5,220	7,335	8,816	10,250
Inventories	118	63	82	98	105
Sundry debtors	2,060	3,449	3,695	4,415	4,733
Cash & bank balances	481	247	1,642	2,013	2,957
Other current assets	291	404	547	654	701
Loans & advances	949	1,057	1,368	1,635	1,753
Current liabilities & prov.	1,848	1,812	3,065	3,663	3,927
Current liabilities	1,787	1,657	2,929	3,500	3,752
Provisions and others	62	155	137	164	175
Net current assets	2,051	3,408	4,269	5,153	6,323
Others (net)	0	0	0	0	0
Application of funds	14,641	14,996	13,958	14,642	15,613

Source: Company, JM Financial

Cash flow statement					
	(₹ mn)				
Y/E March	FY14A	FY15A	FY16E	FY17E	FY18E
Reported net profit	875	1,051	1,741	1,655	1,849
Depreciation and amort.	667	572	549	549	549
-Inc/dec in working cap.	893	-1,033	147	-390	-172
Others	5	6	0	0	0
Cash from operations (a)	2,440	596	2,438	1,815	2,227
-Inc/dec in investments	-1,224	522	0	0	0
Capex	-359	-91	1,350	-350	-350
Others	-293	-557	386	-123	-54
Cash flow from inv. (b)	-1,876	-125	1,736	-473	-404
Inc/-dec in capital	0	-2	0	0	0
Dividend+Tax thereon	-203	-273	-303	-337	-371
Inc/-dec in loans	-600	-427	-2,476	-635	-508
Others	2	-2	0	0	0
Financial cash flow (c)	-801	-704	-2,779	-972	-878
Inc/-dec in cash (a+b+c)	-237	-234	1,395	371	944
Opening cash balance	718	481	247	1,642	2,013
Closing cash balance	481	247	1,642	2,013	2,957

Source: Company, JM Financial

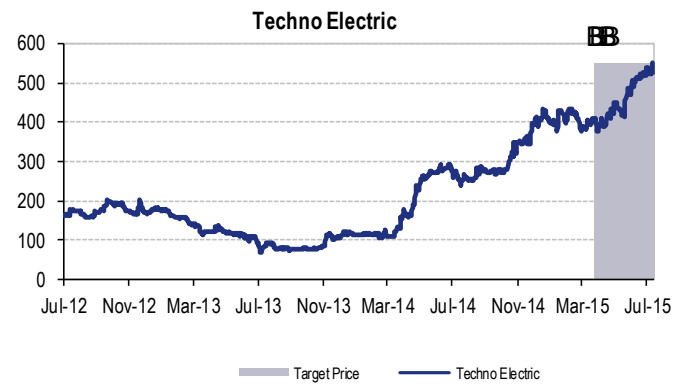
Key Ratios					
Y/E March	FY14A	FY15A	FY16E	FY17E	FY18E
BV/Share (₹)	146.6	160.2	185.4	208.5	234.4
ROIC (%)	9.5	9.9	12.3	15.5	16.5
ROE (%)	10.9	12.0	13.8	14.7	14.6
Net Debt/equity ratio (x)	0.4	0.4	0.0	-0.1	-0.2
Valuation ratios (x)					
PER	34.3	28.6	22.0	18.1	16.2
PBV	3.6	3.3	2.8	2.5	2.2
EV/EBITDA	17.5	16.4	13.3	11.2	9.9
EV/Sales	4.8	4.3	3.0	2.4	2.2
Turnover ratios (no.)					
Debtor days	106	159	135	135	135
Inventory days	6	3	3	3	3
Creditor days	91	99	105	105	105

Source: Company, JM Financial

History of earnings estimates and target price

Date	FY16E EPS (₹)	% Chg.	FY17E EPS (₹)	% Chg.	Target Price	% Chg.
21-Apr-15	23.2		26.6		550	
27-Apr-15	23.2	0.0	26.6	0.0	550	0.0
15-May-15	23.4	0.9	27.1	1.9	550	0.0
22-May-15	24.2	3.4	28.1	3.7	550	0.0

Recommendation history



APPENDIX I

JM Financial Institutional Securities Limited

(Formerly known as JM Financial Institutional Securities Private Limited)

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and MCX Stock Exchange Ltd.

SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MCX-SX - INZ260012539

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Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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