

## Techno Electric & Engineering Limited

BUY



Asian Markets Securities Pvt. Ltd.

### Institutional Research

CMP (Rs)	526
Target (Rs)	640

Nifty: 8,462; Sensex: 27,866

### Key Stock Data

BSE Code	533281
NSE Code	TECHNO
Bloomberg Code	TEEC IN
Shares o/s mn (FV Rs 2)	57.1
Market Cap (Rs bn)	30.0
52-Week High / Low	560 / 237
3-M Daily Avg. Vol.	81,023

### Relative Performance

(%)	1m	3m	12m
TEEC	2.4	30.6	102.0
NIFTY	1.2	1.7	11.8
SENSEX	0.8	1.3	10.9

### Shareholding Pattern

(%)	Jun15	Mar15	Dec14
Promoter	58.0	58.0	58.0
FII	6.6	5.1	5.6
DII	14.9	15.1	13.5
Others	20.5	21.8	22.9

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### Strong Order Book to drive towards robust revenue growth

Techno Electric & Engineering Co Ltd. (TEEC) reported 1Q FY16 results with consolidated PAT of Rs 224mn Vs Rs2376mn in 1QFY15. Consolidated EBITDA declined by 15% yoy, owing to sharp decrease in Energy segment margins. Consolidated revenue increased by 10% yoy at Rs 2.1 bn on the back of better EPC execution. EPC EBIT margin grew by 247bp yoy to 12.9% along with a robust revenue growth of 25% yoy. The current order book stands healthy at Rs21.2 bn and has a strong bidding pipeline. The management continues to be positive on EPC segment and is also looking to add a few BOOT projects in next 6-9 months. Wind business remained laggard on account of seasonality, poor wind condition and evacuation issues. However wind segment's performance is expected to improve in future owing to TN high court order on evacuation by states; however we believe it will be at a slow pace. We have increased our revenue estimates in EPC segment and reduced our PLF estimates in wind segment resulting in an increase in earnings by 1.4% in FY16E and 5.6% in FY17E. Given the strong order book, high EBITDA margins, efficient working capital management, operational wind power, T&D assets and strong and consistent free cash flow generation, we believe the business continues to be attractive. We reiterate BUY with a revised TP of Rs640. We value TEEC on SOTP basis valuing EPC at 18x FY17E earnings, remaining wind business at DCF and the transmission BOT assets on the basis of BV. Our TP suggests at 22% upside from CMP, however we believe the stock has significant higher upside potential in the event of sale of entire wind asset.

**Robust 1QFY16 EPC results:** EPC segment reported strong EBIT margin growth of 247bp yoy to 12.9%. TEEC reported healthy 25% yoy growth in EPC revenues as the project execution remains strong on the back of higher order book. Wind business continued to be laggard due to late arrival of wind season and partial sale of wind assets. Consolidated revenue grew by 10% yoy and Adj. PAT came in at Rs224mn down 5.8% yoy poor wind business.

**Healthy order book and pipeline:** TEEC current order book stood at Rs21.2 bn as on June'15 (Rs20.3 bn FY15end), up 62% Vs FY14end. Company received an order inflow of 2.7bn during 1Q FY16. Apart from L1 of Rs 1.8bn order, management indicated a healthy order pipeline in near term and guided a strong order inflow situation leading to more than 30% revenue growth in future. We estimate FY16 ending order book of Rs26.7 bn and FY17E closing order book to be at Rs33.5 bn.

**Increase FY16E estimates by 1.4% and FY17E estimates by 5.6%:** We have revised our earnings estimates upwards by 1.4% for FY16E and 5.6% for FY17E after factoring higher revenue growth in EPC segment and lower PLF at 18% in wind segment. We believe given the strong order book and company's execution track record, TEEC will be able to achieve a higher growth rate in EPC revenues. We have kept all other estimates unchanged.

**Asset Ownership:** Jhajjer-KT continued its good performance and Patran project is 30% completed and is expected to commission by May'2016. TEEC has sold part of its wind power asset at Rs2.15 bn and has booked Rs247 as profits from the sale of assets. It is also looking for a suitable fit to exit its wind business entirely. We believe in the event of exit from wind power business, TEEC's financials would improve significantly and the stock may lead to substantial upward rerating.

**Outlook and Valuations:** Consolidated revenues and earnings are likely to increase by CAGR of 27% and 37% respectively over FY15-17E lead by strong recovery in EPC segment. Given the strong recovery in EPC business, one of the most efficient EPC players, sizable cash balance, wind power assets and potential sale of the assets, value accretive BOOT assets in power T&D side and positive free cash flows; we remain positive on the business. We reiterate BUY with a revised PT of Rs640. We value TEEC on SOTP basis valuing EPC at 18x FY17E earnings, remaining wind business at DCF and the transmission BOT assets on the basis of BV.

### Exhibit 1: Key Financials (Consolidated)

mn)	FY13	FY14	FY15	FY16E	FY17E
Sales	7,001	7,085	7,939	10,429	12,837
yoy (%)	(14.6)	1.2	12.1	31.4	23.1
EBITDA	2,346	1,925	2,081	2,354	2,868
yoy (%)	6.8	(17.9)	8.1	13.1	21.8
Adjusted PAT	1,225	875	1,052	1,461	1,973
yoy (%)	0.7	(27.6)	20.0	55.9	19.0
Equity	114	114	114	114	114
EPS	21.4	15.3	18.4	25.6	34.6

### Exhibit 2: Key Ratios

Y/E Mar	FY13	FY14	FY15	FY16E	FY17E
EBITDAM (%)	33.5	27.2	26.2	22.6	22.3
NPM (%)	17.0	12.1	12.9	13.6	14.9
PER (x)	24.5	34.3	28.5	20.5	15.2
P/BV (x)	3.9	3.6	3.3	2.9	2.5
EV/Sales (x)	5.0	4.8	4.2	2.9	2.2
EV/ EBITDA (x)	15.1	17.5	15.9	12.8	10.0
Core RoACE (%)	11.8	9.5	10.2	12.6	17.1
Core RoANW (%)	16.9	12.3	13.0	16.7	23.5

Source: Company, AMSEC Research

**Exhibit 3: Quarterly snapshot (Consolidated)**

Y/E Mar (Rs mn)	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	yoy(%)	qoq (%)	FY14	FY15	yoy (%)
<b>Net Sales</b>	<b>1,832</b>	<b>2,082</b>	<b>1,814</b>	<b>2,211</b>	<b>2,015</b>	10.0	(8.9)	<b>7,085</b>	<b>7,939</b>	12.1
Cons of Raw Materials	1,125	1,074	1,201	1,622	1,335	18.7	(17.7)	4,260	5,022	17.9
Employee Cost	63	71	76	63	69	9.3	9.0	290	274	(5.7)
Other Expenditure	115	170	140	137	161	40.3	17.9	607	562	(7.4)
Total Expenditure	1,303	1,315	1,417	1,822	1,565	20.1	(14.1)	5,157	5,858	13.6
<b>EBITDA</b>	<b>529</b>	<b>766</b>	<b>397</b>	<b>389</b>	<b>450</b>	(14.9)	15.6	<b>1,928</b>	<b>2,081</b>	8.0
Add: Other Income	30	60	38	74	46	53.8	(37.3)	120	202	68.8
Interest	110	117	106	98	89	(19.6)	(9.3)	454	431	(5.1)
Depreciation	172	175	172	85	119	(30.7)	40.2	667	603	(9.5)
<b>Profit Before Tax</b>	<b>277</b>	<b>535</b>	<b>157</b>	<b>280</b>	<b>288</b>	4.2	2.9	<b>927</b>	<b>1,249</b>	34.8
Provision for Taxation	32	51	32	71	58	82.4	(19.3)	38	185	392.5
Exceptional item	8	7	2	(16)	(147)			2	1	
<b>Reported PAT</b>	<b>245</b>	<b>485</b>	<b>126</b>	<b>209</b>	<b>378</b>	54.0	80.8	<b>889</b>	<b>1,064</b>	19.7
Minority Interest	-	-	0	(2)	7			12	12	
<b>Adjusted PAT</b>	<b>237</b>	<b>477</b>	<b>123</b>	<b>227</b>	<b>224</b>	(5.8)	(1.5)	<b>875</b>	<b>1,051</b>	20.1
Equity Capital (FQ ₹2)	114	114	114	114	114			114	114	
<b>Basic EPS (In ₹.)</b>	<b>4.3</b>	<b>8.5</b>	<b>2.2</b>	<b>3.7</b>	<b>6.6</b>	54.0	80.8	<b>15.6</b>	<b>18.6</b>	
<b>Adjusted EPS (In ₹.)</b>	<b>4.2</b>	<b>8.4</b>	<b>2.2</b>	<b>4.0</b>	<b>3.9</b>	(5.8)	(1.5)	<b>15.3</b>	<b>18.4</b>	
EBITDA (%)	28.9	36.8	21.9	17.6	22.3	(660bp)	472bp	27.2	26.2	(99bp)
PAT (%)	12.7	22.3	6.6	9.9	13.6	85bp	366bp	12.1	12.9	76bp
Tax / PBT (%)	11.4	9.4	20.1	25.5	20.0	857bp	(0bp)	4.1	14.8	1077bp
Raw Mat / Net Sales (%)	61.4	51.6	66.2	73.4	66.3	484bp	(0bp)	60.1	63.3	312bp
Emp Cost/Net Sales (%)	3.4	3.4	4.2	2.9	3.4	(0bp)	56bp	6.8	5.5	(136bp)
Other Exp/Net Sales (%)	6.3	8.2	7.7	6.2	8.0	173bp	181bp	209.2	205.3	(381bp)

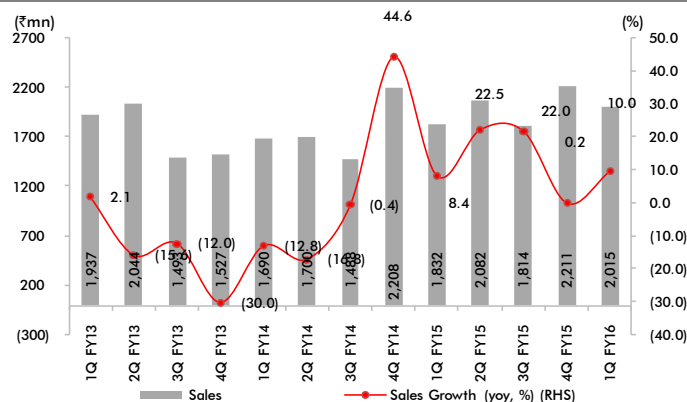
Source: Company, AMSEC Research

**Exhibit 4: Quarterly segment (Consolidated)**

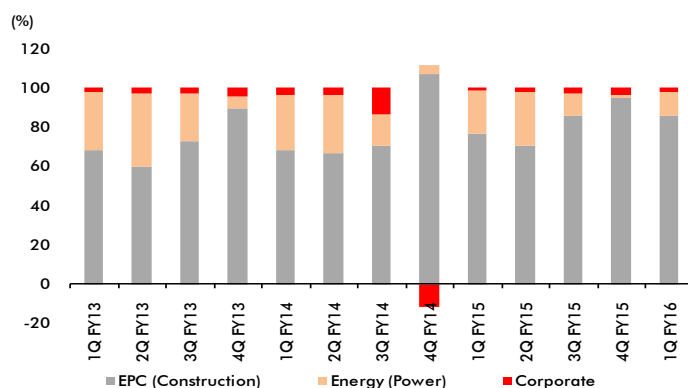
Segment	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	yoy(%)	qoq (%)	FY14	FY15	yoy (%)
<b>Revenue</b>										
EPC (Construction)	1424	1509	1582	2167	1779	25.0	(17.9)	5705	6681	17.1
Energy (Power)	408	590	220	40	243	(40.6)	506.4	1380	1258	(8.8)
Corporate	30.1	43.5	50	79	46	53.8	(41.1)	120	202	68.8
Total	1862	2142	1852	2285	2068	11.1	(9.5)	7205	8141	13.0
<b>EBIT</b>										
EPC (Construction)	148	230	199	347	229	54.7	(34.0)	593	924	56.0
Energy (Power)	201	371	11	-31	102	(49.4)	(429.6)	666	553	(17.0)
Corporate	30	44	50	79	46	54	(41.1)	120	202	69
<b>Sales Growth (% , y-y)</b>										
EPC (Construction)	19.6	28.0	30.9	1.8	25.0			(9.6)	17.1	
Energy (Power)	(18.3)	13.1	(21.1)	(49.9)	-40.6			(74.7)	(8.8)	
Corporate	(46.4)	(31.1)	(77.9)	(134.8)	53.8			553	68.8	
<b>EBIT Margin (%)</b>										
EPC (Construction)	10.4	15.3	12.6	16.0	12.9	247bp	(310bp)	10.4	13.8	345bp
Energy (Power)	49.3	62.8	5.2	NA	42.0	(730bp)	NA	48.3	43.9	(434bp)
Corporate	100	101	100	100.0	100.0	-	-	100	100	-

Source: Company, AMSEC Research

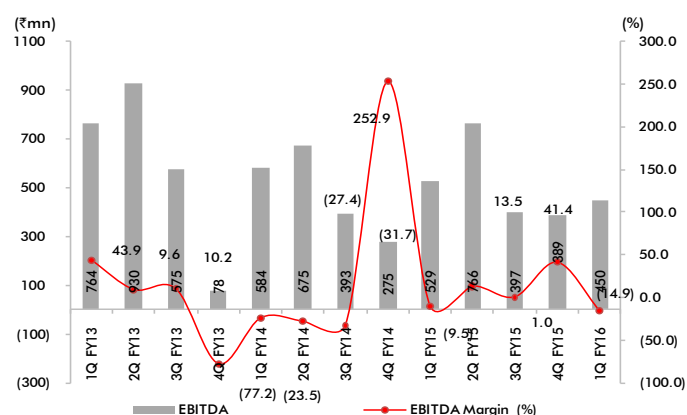
**Exhibit 5: Quarterly revenue trend**



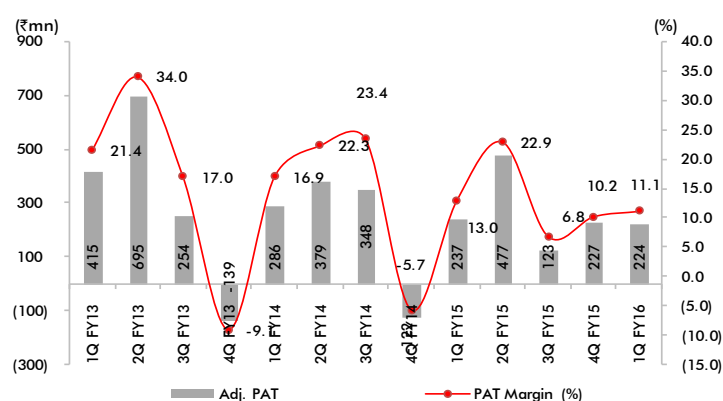
**Exhibit 6: Quarterly revenue breakdown segment wise**



**Exhibit 7: Quarterly EBITDA margin Trend**



**Exhibit 8: Quarterly profit trend**



Source: Company, AMSEC Research

**Exhibit 9: SOTP Valuations and target price based on FY17 earnings**

Business segment	Valuation methodology	Amount (Rs mn)	Per Share (Rs)
EPC	18x FY17E P/E	31,143	546
Wind power	DCF	4,047	71
<b>Transmission business</b>			
Jhajjar KT Transco	2x book value	760	13
Patran Power	1x book value	600	11
<b>Total equity value</b>		<b>36,551</b>	<b>640</b>
CMP			526
Upside (%)			22%

Source: Company, AMSEC Research

**Exhibit 10: TEEC (Consolidated) Change in Estimates**

Consolidated (Rs mn)	Old Estimates		Revised Estimates		% Change	
	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Revenue	9,546	11,644	10,429	12,837	9.2	10.2
EBITDA	2,329	2,738	2,354	2,868	1.1	4.7
Adj. PAT	1,440	1,869	1,461	1,973	1.5	5.6
EPS (Rs)	25.2	32.7	25.6	34.6	1.5	5.6
PT (Rs)				640		
Rating				BUY		

Source: Company, AMSEC Research

## Financials (Consolidated)

(Rs mn)

Profit & Loss Account						Cash Flow Statement					
Particulars	FY13	FY14	FY15	FY16E	FY17E	Particulars	FY13	FY14	FY15	FY16E	FY17E
Net sales	7,001	7,085	7,939	10,429	12,837	PBT	1,375	924	1,249	2,073	2,467
Consumption of n	3,747	4,260	5,022	5,632	6,932	Non-cash adjustm	655	667	603	507	510
Staff Expenses	324	290	274	532	680	Changes in workin	(1,284)	600	(664)	(523)	(619)
Other operating e	584	609	562	1,911	2,356	Interest Paid	522	454	431	371	311
Total Expenditure	4,655	5,160	5,858	8,075	9,969	Tax Paid & Other .	(187)	(79)	(278)	(415)	(493)
<b>EBITDA</b>	<b>2,346</b>	<b>1,925</b>	<b>2,081</b>	<b>2,354</b>	<b>2,868</b>	<b>Cashflow from o</b>	<b>1,081</b>	<b>2,566</b>	<b>1,341</b>	<b>2,014</b>	<b>2,176</b>
Depreciation	655	667	603	507	510	Capital exp. & Adv	(183)	(359)	(91)	1,617	(150)
<b>Operating profit</b>	<b>1,691</b>	<b>1,259</b>	<b>1,478</b>	<b>1,847</b>	<b>2,358</b>	Change in investm	(112)	(1,224)	522	(2,500)	(700)
Other income	206	120	202	350	420	Other investing cc	-	-	-	-	-
<b>EBIT</b>	<b>1,897</b>	<b>1,379</b>	<b>1,681</b>	<b>2,197</b>	<b>2,778</b>	<b>Cashflow from in</b>	<b>(294)</b>	<b>(1,583)</b>	<b>432</b>	<b>(883)</b>	<b>(850)</b>
Interest	522	454	431	371	311	Issue of equity	-	(0)	-	-	-
Exceptional items	-	-	-	247	-	Issue/repay debt	445	(600)	(1,352)	(600)	(600)
<b>Profit before tax</b>	<b>1,375</b>	<b>924</b>	<b>1,249</b>	<b>2,073</b>	<b>2,467</b>	Interest Paid	(522)	(454)	(431)	(371)	(311)
Tax	151	38	185	415	493	Dividends paid	(167)	(167)	(223)	(278)	(278)
<b>Reported net pr</b>	<b>1,225</b>	<b>887</b>	<b>1,064</b>	<b>1,658</b>	<b>1,973</b>	<b>Cashflow from fi</b>	<b>(243)</b>	<b>(1,221)</b>	<b>(2,006)</b>	<b>(1,249)</b>	<b>(1,189)</b>
Minority interest	-	12	12	-	-	<b>Change in cash</b>	<b>543</b>	<b>(238)</b>	<b>(233)</b>	<b>(118)</b>	<b>137</b>
<b>Adjusted net pr</b>	<b>1,225</b>	<b>875</b>	<b>1,052</b>	<b>1,461</b>	<b>1,973</b>	<b>Opening cash &amp;</b>	<b>176</b>	<b>718</b>	<b>481</b>	<b>248</b>	<b>131</b>
Share O/s mn	57	57	57	57	57	<b>Closing cash &amp; c</b>	<b>719</b>	<b>481</b>	<b>248</b>	<b>131</b>	<b>267</b>
EPS Rs (adjusted)	21.4	15.3	18.4	25.6	34.6	<b>Free cash flow t</b>	<b>898</b>	<b>2,207</b>	<b>1,251</b>	<b>3,632</b>	<b>2,026</b>

Balance Sheet						Ratios					
Particulars	FY13	FY14	FY15	FY16E	FY17E	Particulars	FY13	FY14	FY15	FY16E	FY17E
<b>SOURCES OF FUNDS :</b>						<b>PER SHARE</b>					
Share Capital	114	114	114	114	114	EPS Rs (adjusted)	21.4	15.3	18.4	25.6	34.6
Reserves	7,585	8,257	9,033	10,413	12,108	CEPS Rs	32.9	27.2	29.2	37.9	43.5
Minority Interest	188	193	199	199	199	Book Value Rs	134.9	146.6	160.2	184.4	214.1
<b>Total Sharehold</b>	<b>7,887</b>	<b>8,564</b>	<b>9,346</b>	<b>10,726</b>	<b>12,421</b>	<b>VALUATION</b>					
<b>Non-Current Lic</b>	<b>6,683</b>	<b>6,086</b>	<b>4,732</b>	<b>4,132</b>	<b>3,532</b>	EV / Net Sales	5.0	4.8	4.2	2.9	2.2
Total borrowings	6,676	6,077	4,725	4,125	3,525	EV / EBITDA	15.1	17.5	15.9	12.8	10.0
Deferred tax liabil	7	9	7	7	7	P / E Ratio	24.5	34.3	28.5	20.5	15.2
<b>Current Liabiliti</b>	<b>2,364</b>	<b>1,848</b>	<b>2,738</b>	<b>3,472</b>	<b>4,220</b>	P / BV Ratio	3.9	3.6	3.3	2.9	2.5
Trade payables	2,123	1,787	2,583	3,343	4,044	<b>GROWTH YOY%</b>					
Short term provis	240	62	155	129	176	Sales Growth	(14.6)	1.2	12.1	31.4	23.1
<b>Total Equity &amp; Li</b>	<b>16,934</b>	<b>16,498</b>	<b>16,816</b>	<b>18,329</b>	<b>20,173</b>	EBITDA Growth	6.8	(17.9)	8.1	13.1	21.8
<b>APPLICATION OF FUNDS :</b>						Net Profit Growth	0.7	(27.6)	20.0	55.9	19.0
<b>Non Current As:</b>	<b>11,420</b>	<b>11,113</b>	<b>10,631</b>	<b>8,507</b>	<b>8,146</b>	<b>PROFITABILITY (%)</b>					
Goodwill	157	157	157	157	157	EBITDA / Net Sale	33.5	27.2	26.2	22.6	22.3
Gross block (Total	12,917	13,247	13,335	10,804	10,954	EBIT / Net sales	27.1	19.5	21.2	21.1	21.6
Less : accumulate	2,045	2,711	3,283	2,877	3,387	NPM / Total incon	17.0	12.1	12.9	13.6	14.9
Net block (Total)	10,872	10,536	10,052	7,927	7,566	Raw Material/Net	53.5	60.1	63.3	54.0	54.0
Capital work in pr	7	36	38	38	38	Int/PBIT	27.5	33.0	25.7	16.9	11.2
Noncurrent invest	384	384	384	384	384	Core ROaNW	16.9	12.3	13.0	16.7	23.5
Deferred tax assets	-	-	-	-	-	Core ROaCE	11.8	9.5	10.2	12.6	17.1
<b>Current Assets</b>	<b>5,514</b>	<b>5,385</b>	<b>6,184</b>	<b>9,823</b>	<b>12,027</b>	Tax / PBT	11.0	4.1	14.8	20.0	20.0
Current investme	262	1,486	963	3,463	4,163	<b>TURNOVER</b>					
Inventories	17	118	63	86	106	Net Working Cycle	113	81	103	97	96
Sundry debtors	3,060	2,060	3,449	4,286	5,205	Debtors Velocity (l	160	106	159	150	148
Cash and bank	718	481	248	131	267	Inventory (Days)	1	6	3	3	3
Short loans and ac	1,256	949	1,057	1,429	1,758	Creditors Velocity	111	92	119	117	115
Others current as:	201	291	404	429	528	<b>LIQUIDITY</b>					
<b>Total Assets</b>	<b>16,934</b>	<b>16,498</b>	<b>16,816</b>	<b>18,329</b>	<b>20,173</b>	Gross Asset Ratio	0.5	0.5	0.6	0.9	1.2
Net Working Capi	2,170	1,570	2,235	2,757	3,376	Total Asset Ratio	0.4	0.4	0.5	0.6	0.7
Total Gross Debt*	6,676	6,077	4,725	4,125	3,525	Net Debt-Equity R	0.7	0.5	0.4	0.1	(0.1)
Total Net Debt	5,696	4,110	3,513	531	(906)	Interest Coverage	3.6	3.0	3.9	5.9	8.9
Capital Employed	14,564	14,641	14,071	14,851	15,946	<b>PAYOUT</b>					
* WC = CA-CL (Excl short term & Curr. Mat. Long term debt)						Payout %	13.6	18.8	20.9	16.8	14.1
** Total Debt = Long Term + short Term + Curr. Mat. Of Long Term Debt						Yield %	0.6	0.6	0.8	1.0	1.0
*** Capital Employed = NW + Total Debt											

Source: Company, AMSEC Research

### Recommendation Rationale

<b>Buy:</b> Potential upside of	> +15% (absolute returns)
<b>Accumulate:</b>	+6 to +15%
<b>Reduce:</b>	+5 to -5%
<b>Sell:</b>	> -5%
<b>Not Rated (NR):</b>	No investment opinion on the stock

### Sector Rating

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

### Disclosures

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