POWER PLAY The maker of electricity sub-stations, with sensible bidding, has ensured superior margins and return ratios; may maintain 20-22% growth in order book

From Margins to Order Book, Techno Electric is All Lit Up

OUTLIER

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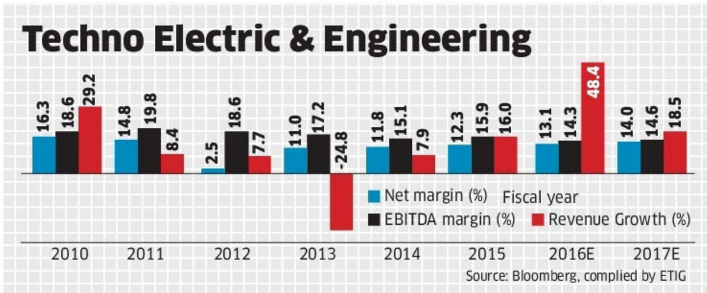
ET Intelligence Group: Kolkata-headquartered Techno Electric & Engineering, which builds electricity sub-stations and caters to power generating companies, is among a few companies in the industrial segment that have shown prudence while bidding for projects. This has ensured superior margins and return ratios.

Techno Electric operates at a margin of over 15% compared with the industry average of 10%. The return on capital employed (RoCE) excluding the wind power business is 25%, nearly double than the sector's average. At the end of the December quarter, the company had an order book of ₹2,000 crore, which is equivalent to 2.2 times its last fiscal's revenues.

The company picks up only those orders which are profitable and executes them on time. Due to its stringent order selection criteria, it did not bag any orders during 2010-2011, a time when its peers were bidding aggressively eventually diluting their margins.



Its top seven customers accounted for almost half of the projects over the last 15 years. It has won repeat orders from key clients such Power Grid, NTPC and Bihar Electricity Board.

Indian electricity transmission & distribution (T&D) business has been under invested. Globally, an equal amount of money is invested in power generation and T&D activities. In India, however, the proportion is quite low. For every ₹100 invested in power generation, only ₹45 are invested in T&D. The government's focus on reviving power infrastructure is expected to improve the situation.

The total T&D investment planned in the 12th Five-year plan is ₹4.8 lakh crore, which results in an annual opportunity of ₹97,200 crore. Also, out of total renewable projects worth ₹60,000 crore, the company is targeting to bag orders of nearly ₹11,000 crore.

The company has followed an asset-light model. This has boosted its fixed asset turnover ratio to 43 as compared to the sector's 5-6. It plans to exit wind power business which has been depressing its consolidated RoCE.

The company expects to maintain an annualised growth of 20-22% in order booking during the rest of 12th five-year plan. The company's stock trades at 17 times FY17 projected earnings. According to Bloomberg consensus estimates, revenue and profit is expected to grow by 19% and 29% respectively for FY17, which justify the current valuation.

Stand-out stocks and stand-out companies seldom get noticed in troubled times. ET delves into financial performance of India Inc every week to identify stocks and companies that have bucked the trend to emerge stronger. This week, we present Techno Electric & Engineering.