

Asian Markets Rating

Hold

CMP (Rs)

656

Nifty: 19,765

Sensex: 65,982

Key Stock

Bloomberg	TECHNOE IN
Shares O/s Mn (FV INR2)	107.6
Mkt Cap (USD Bn/INR Bn)	0.8/70.6
52-week high/low	672/279
6m daily avg vol (INR Mn)	72
Free Float %	38

Price Performance

(%)	3m	1yr	3yr
TECHNOE	39.2	131.3	231.6
Nifty	1.8	9.0	61.3
NSE500	4.6	13.9	75.5
BSE Midcap	9.9	33.0	115.7

Shareholding Pattern

(%)	Mar23	Jun23	Sep23
Promoter	61.5	61.5	61.5
FII	2.1	2.2	2.3
DII	25.0	24.2	24.6
Others	11.4	12.1	11.6

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FY23-26E Earnings CAGR	CF & Return Profile	Valuations
43%	Moderate	Stretched

Strong results led by healthy EPC execution...

Techno Electric and Engineering Limited (TECHNOE) posted strong Q2FY24 results with revenue of Rs4.6bn, driven by pick up in EPC execution as also commencement of EPC revenue for the Data Centre. The company received a healthy order inflow of Rs 14.4bn in YTD FY24, which marked a strong order book of Rs 43.6bn and a healthy book to bill of 3.5x on TTM revenue. The Company continues to be cash rich with net cash of Rs15bn, i.e., ~Rs140/ per share. Management is confident to achieve Rs4bn+ revenue quarterly run rate with EBITDAM of ~13% over the coming quarters. We have increased our EPS by 6%/22% for FY24E/FY25, factoring strong execution and improvement in margin. Further, introduced FY26E with EPS of Rs25.6. On valuation front, we have not factored in Data Centre valuations awaiting more clarity about the business model and contours of the strategic partnership the company is working on. We recommend HOLD rating on stock and will revisit the valuations once clarity emerges on data centre front.

Strong results in Q2FY24/1HFY24: TECHNOE reported revenues grew by 148% yoy/ 68.8% qoq to Rs4.6bn, driven by strong growth in EPC business on account of pick up in execution of transmission, smart meter and Data Centre business. EBITM improved by 83bp yoy to 16.2%. Wind business being on the block, the same is treated as discontinued business and hence no revenue is considered. EBITDA increased by 140% yoy/267% qoq to Rs776Mn, EBITDAM declined by 65bp yoy to 16.8%. PAT grew by 104.5% yoy to Rs738mn and PATM stood at 15%. In 1HFY24, Revenue grew by 122% yoy to Rs7.3bn, EBITDA grew by 79.8% yoy to Rs987mn and EBITDAM declined by 316bp yoy to 13.4%, PAT grew by 76.6% yoy to Rs1bn.

Order book and pipeline remain healthy: The current order book stands at Rs35.3bn as of Sept'23, reflecting a strong book-to-bill of 2.8x on TTM revenue. Techno received order inflow of Rs14.4bn in YTD FY23, Included Rs6.1bn in 1HFY24 and Rs8.2bn post Sept'23. Thus, unexecuted order book as on date stands at Rs43.6bn, reflecting book to bill of 3.5x on TTM revenue. Further, company has L1 orders of Rs35.5bn, includes PGCIL order of Rs2.2bn, transmission order from Sterlite of Rs2bn, transmission order from NTPC of Rs2.2bn, Jharkhand smart meter order of Rs13.9bn for 12 lakh smart meters and Jammu and Kashmir for Rs10.4bn for 7.25 lakh meters and Tripura for Rs4.4bn for 4 lakh smart meters. Out of L1 order of Rs35.5bn, the company received order of Rs8.5bn and remaining Rs27bn expected to receive in by Dec'23- Jan'24. Bid pipeline is strong at Rs50bn, which are yet to be open, and the management expects to bag at least Rs20bn worth of orders. Management expects orders of Rs50bn in FY24E. We have factored in order inflow of Rs 25bn / Rs14.5bn / Rs14.5bn in FY24E/FY25E/FY26E and forecast EPC revenue CAGR of 45% during FY23-26E with EBITM of 13-13.3%.

Chennai Phase I Data Center to commission in March'24: Work on the 24MW data load Data Centre at Chennai is progressing well. The company has achieved significant progress on construction and completed civil works for the data center building. Out of total Rs5.5bn for 1st Phase Chennai data center, Techno already invested Rs2.8bn till date and the management is hopeful of commissioning the first phase of the projects by March'24. The company still evaluating strategic partners to enter into JV for developing Data Centres in India and expects to conclude deal in next couple of quarters. The total capex for the Chennai data center is Rs14bn (Rs450mn/per MW) in 3-4 phases, of which ~60-65% constitute electromechanical work to be carried out by its EPC arm.

Outlook and Valuation: We have factored in a revenue CAGR of 45% for the EPC business on a lower base of FY23 resulting in PAT CAGR of 43% during FY23-26E. Healthy order book in the back drop of strong ordering trend in T&D and Metering provides good visibility to TECHNOE. While the long-term outlook for EPC business remains healthy. **On valuation front, we have not factored in Data Centre valuations awaiting more clarity about the business model and contours of the strategic partnership the company is working on. We recommend HOLD rating on stock and will revisit the valuations once clarity emerges on Data Centre front.**

Exhibit 1: Key Financials (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Sales	10,739	8,295	14,291	19,690	25,285
yoy (%)	23.2	(22.8)	72.3	37.8	28.4
EBITDA	2,222	867	1,894	2,615	3,399
yoy (%)	12.1	(61.0)	118.5	38.1	30.0
Adjusted PAT	1,758	966	1,782	2,246	2,812
yoy (%)	20.0	(45.1)	84.5	26.0	25.2
EBITDAM (%)	20.7	10.4	13.3	13.3	13.4
Equity	220	215	215	215	215
EPS	16.0	8.8	16.2	20.4	25.6

Exhibit 2: Key Indicators

Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
Core RoANW (%)	18.4	7.6	22.9	28.2	37.0
Core RoACE (%)	15.7	7.6	22.2	27.2	35.3
Core ROIC (%)	22.6	13.0	33.6	40.5	52.5
D:E (x)	(0.6)	(0.8)	(0.4)	(0.4)	(0.3)
Adjusted PER (x)	41.1	74.8	40.5	32.2	25.7
P/BV (x)	3.9	3.7	3.5	3.3	3.1
EV/Sales (x)	5.7	6.8	4.0	2.8	2.1
EV/ EBITDA (x)	27.6	64.8	29.8	21.2	15.8
Div Yield (%)	0.3	0.9	1.5	1.5	1.5

Source: Company, AMSEC Research



Concall Highlights:

- Guidance:** Management expects revenue of Rs16-18bn/Rs25bn/Rs30bn in FY24E/FY25/FY26, respectively with EBITDAM of 13%. Targeting revenue of Rs4-5bn every quarter. Further, it expects an order inflow of Rs50bn in FY24E and Rs40bn order inflow per year. The company expects strong business growth from smart meters, transmission and Data Centres. Techno expects Rs12bn/per annum order inflow from transmission and Rs20bn/per annum from smart metering segment.
- FGD segment subdued:** Techno has not received any orders from FGD segment in 1HFY24, due to FGD segment is a bit subdued because of the energy issue. Techno has FGD order of Rs13.9bn from Rajasthan is progressing smoothly. The company expects to received order worth Rs14bn from FGD for next 5-7 years as 100 gigawatt is yet to be ordered out by CPSUs, SEBs and private sector (totalling to a scope of almost Rs1 lakh crore). However, Management expects Rs5bn annual order Intake due to subdued market.
- Transmission:** After long time traction in transmission sector is back. TBCB bidding is happening for 50 to 100 Gw now and lot of bidding is in progress at the moment. The company are finding that every month 4-5 concessions are being awarded to power grid or the private sector. Total bids open for transmission is Rs400bn, out of which Techno expects to book orders worth Rs30bn over next three to five years. Techno have won orders worth Rs6.1bn in 1HFY24 and L1 in another Rs9.4bn orders.
- Smart metering:** The company getting lot of traction from smart metering side. ~22.22 crore meters are under various stages of awarding, total opportunities of Rs2.22 lakh crores, out of which around 88% would be under RDSS scheme. Techno expects to get orders worth Rs20bn-Rs25bn/per year from smart metering business. The company already got smart meter order in J&K for 2.5 lakh meters worth Rs3.4bn and in Indore for 5 lakh meters worth Rs5.4bn under DBFOT model. Further, L1 in orders worth Rs29bn for 23 lacks meters.
- Segment wise order book execution:** Transmission sector execution was 30%, smart metering was 15-18% and data center of 12% in Q1HY24.
- Capex Plan:** The company invested Rs2.8bn in Data Centres till now, expect to invest Rs5-7.5bn in data centre and Rs10bn in smart metering over next three years.
- Wind receivables:** Out of total receivables of around Rs6.7bn, total due from Tamil Nadu State Electricity Board being wind power receivables is Rs1.2bn.
- During the current quarter, the Company has received Rs68.08 Mn towards Late Payment Surcharge. Net of these receivables as at 30 September 2023 the outstanding receivables are Rs 564 Mn on account of differential tariff revision and Rs 183 Mn on account of late payment surcharge. Total receivable outstanding as on 30 September 2023 is Rs177 Mn towards differential rate of renewal energy certificates.

Exhibit 3: Order Book Break Up	Rs In Mn	Weightage
Rajasthan Rajya Vidyut Prasaran Nigam Ltd.	13930	39%
Power Grid Corporation of India Ltd.	9684	27%
Techno Infra Developers Pvt Ltd	3025	9%
REC Power Distribution Co. Ltd (JKPDD)	1613	5%
Techno AMI Solutions Pvt Ltd	1516	4%
Sterlite Grid 18 Limited	1294	4%
Chhattisgarh State Power Transmission Co Ltd	1168	3%
Tripura State Electricity Corporation Ltd	1077	3%
Khavda Bhuj Transmission Limited (KBTL)	881	2%
Kerala State Electricity Board	498	1%
DABS	468	1%
Karur Transmission Limited (KTL)	28	0%
Communaute Electrique du Benin (CEB) Togo	77	0%
Damodar Valley Corporation	68	0%
Others	35	0%
Total	35,363	100%

Source: Company, AMSEC Research



Exhibit 4: 2QFY24 Quarterly financial performance

P&L (Rs mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	yoy(%)	qoq (%)	1HFY23	1HFY24	yoy (%)
Net Sales	1,858	1,853	3,130	2,739	4,623	148.8	68.8	3,313	7,362	122.2
Cons of Raw Materials	1,298	1,373	2,569	2,263	3,530	171.9	56.0	2,316	5,793	150.2
Employee Cost	100	98	138	105	117	16.3	10.7	185	222	19.8
Other Expenditure	136	148	351	160	200	47.7	25.3	263	360	37.0
Total Expenditure	1,534	1,619	3,058	2,528	3,847	150.8	52.2	2,764	6,375	130.7
EBITDA	324	234	71	211	776	139.6	267.2	549	987	79.8
Add: Other Income	190	200	227	312	288	51.6	(7.7)	333	600	80.1
Interest	13	16	63	42	40	206.3	(5.7)	27	82	200.4
Depreciation	19	19	20	20	19	0.9	(6.3)	37	39	4.3
Exceptional item	-	-	-	-	-	-	-	-	-	-
Profit Before Tax	482	397	215	461	1,005	108.4	117.9	818	1,466	79.3
Provision for Taxation	121	82	164	183	267	120.1	46.2	242	450	85.7
Reported PAT	361	315	51	278	738	104.5	165.1	575	1,016	76.6
Equity Capital (FV Rs 2)	220	215	215	215	215			220	215	
Basic EPS (In Rs.)	3.3	2.9	0.5	2.6	6.9			5.2	9.4	
Adjusted EPS (In Rs.)	5.3	2.9	5.6	2.3	6.9			8.6	9.2	
EBITDA (%)	17.4	12.6	2.3	7.7	16.8	(65bp)	907bp	16.6	13.4	(316bp)
PAT (%)	28.7	15.3	18.1	8.3	15.0	(1369bp)	674bp	25.9	12.4	(1344bp)
Tax / PBT (%)	25.2	20.6	76.2	39.6	26.6	141bp	(1305bp)	29.6	30.7	105bp
Raw Mat / Net Sales (%)	69.9	74.1	82.1	82.6	76.4	649bp	(624bp)	69.9	78.7	878bp
Emp Cost/Net Sales (%)	5.4	5.3	4.4	3.9	2.5	(288bp)	(132bp)	5.6	3.0	(258bp)
Other Exp/Net Sales (%)	7.3	8.0	11.2	5.8	4.3	(296bp)	(150bp)	7.9	4.9	(304bp)

Source: Company, AMSEC Research

Exhibit 5: Q2FY24 Segment Quarterly financial performance.

Segment	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	yoy(%)	qoq (%)	1HFY23	1HFY24	yoy (%)
Revenue										
EPC (Construction)	1,806	1,839	3,129	2,709	4,577	153.4	69.0	3,267	7,287	123.0
Energy (Power)	52	14	9	30	51	(1.0)	70.5	86	81	(5.2)
Corporate	190	200	218	312	282	48.5	(9.6)	293	594	102.9
Total	2,048	2,052	3,356	3,051	4,911	139.8	60.9	3,646	7,962	118.4
EBIT										
EPC (Construction)	277	225	390	191	739	167.2	286.9	513	931	81.3
Energy (Power)	29	(9)	(13)	4	20	(33.1)	439.1	41	23	(43.4)
Corporate	189	198	(99)	309	286	51.2	(7.4)	291	594	104.6
Total	495	414	278	503	1,045	111.0	107.6	845	1,548	83.2
Sales Growth (% y-y)										
EPC (Construction)	(19.9)	(38.0)	1.7	85.4	153.4					
Energy (Power)	(89.2)	23.7	(24.4)	(11.6)	(1.0)					
Corporate	84.8	102.4	650.2	203.3	48.5					
EBIT Margin (%)										
EPC (Construction)	15.3	12.2	12.5	7.1	16.2	83bp	910bp	15.7	12.8	(294bp)
Energy (Power)	56.7	-68.1	-139.9	12.1	38.4	(1838bp)	2623bp	48.0	28.7	(1936bp)
Corporate	99.5	99.3	-45.4	98.9	101.2	178bp	235bp	99.2	100.0	85bp
ROCE (%)										
EPC (Construction)	6.4	7.2	10.4	14.3	28.6	2225bp	1438bp	11.9	36.1	2418bp
Energy (Power)	-0.5	-2.1	-2.4	0.9	3.6	406bp	273bp	-0.7	4.3	492bp
Corporate	2.3	1.3	(0.7)	1.9	1.7	(56bp)	(18bp)	3.5	3.6	7bp

Source: Company, AMSEC Research



Exhibit 6: Quarterly revenue trend

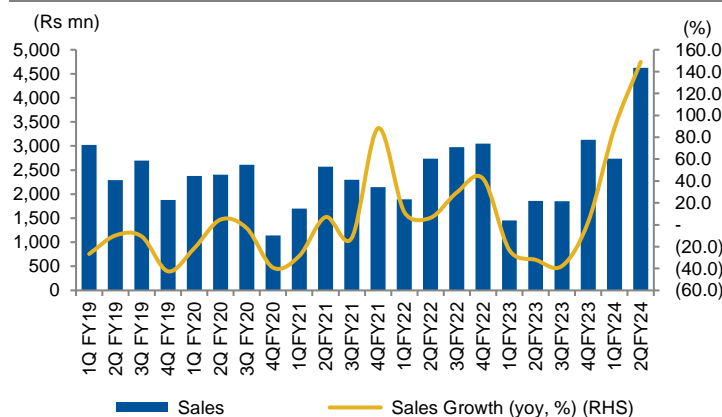


Exhibit 7: Quarterly revenue breakdown segment wise

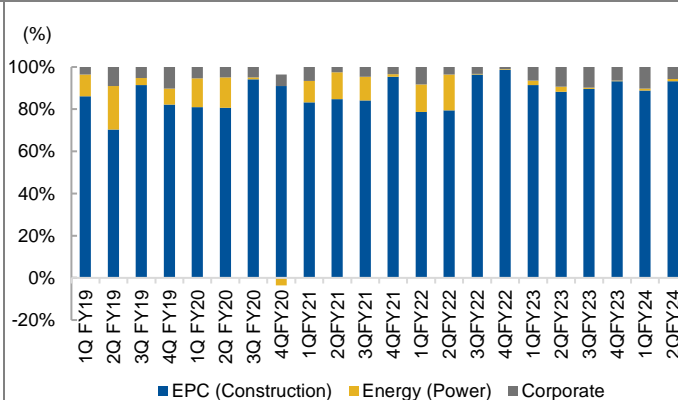


Exhibit 8: Quarterly EBITDA Margin Trend

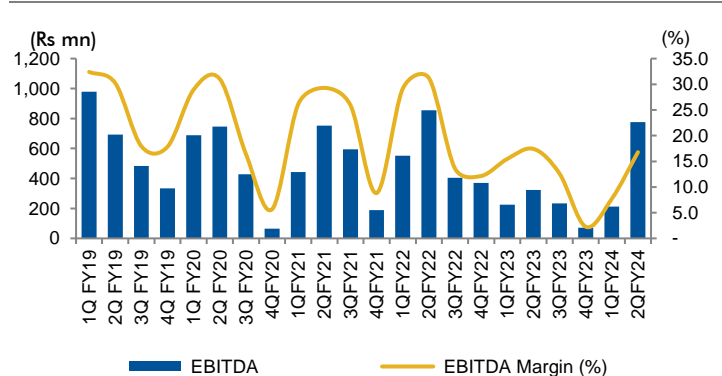


Exhibit 9: Quarterly profit trend

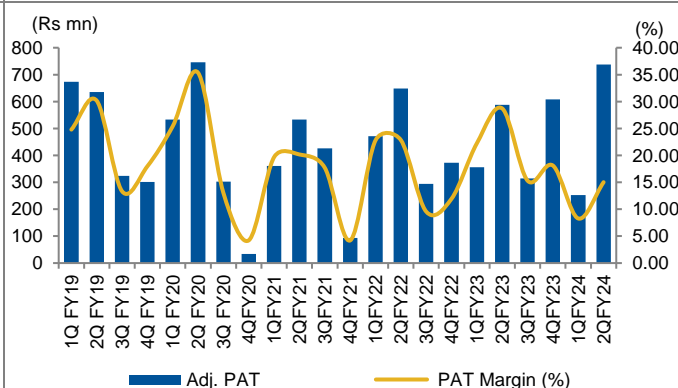


Exhibit 10: Quarterly EPC EBIT and EBITM %

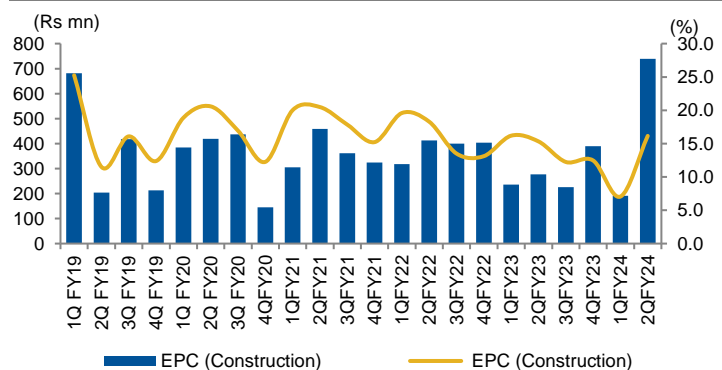


Exhibit 11: Order book trend



Source: Company, AMSEC Research



Financials (Consolidated)

(Rs mn)

Profit and Loss Statement

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Net sales	10,739	8,295	14,291	19,690	25,285
Consumption of materials	7,463	6,258	10,776	14,846	19,065
Staff Expenses	346	422	729	1,004	1,290
Other operating expenses	708	748	893	1,224	1,532
Total Expenditure	8,517	7,428	12,397	17,074	21,886
EBITDA	2,222	867	1,894	2,615	3,399
Depreciation	413	76	44	44	44
Operating profit	1,809	791	1,850	2,571	3,355
Other income	404	746	697	611	602
EBIT	2,214	1,537	2,546	3,182	3,957
Interest	56	107	161	177	195
Exceptional items	1,104	-	-	-	-
Profit before tax	3,261	1,431	2,385	3,005	3,762
Tax	658	464	603	759	950
Reported net profit	2,603	966	1,782	2,246	2,812
Minority interest	(36)	(0)	-	-	-
Adjusted net profit	1,758	966	1,782	2,246	2,812
Share O/s mn	110	108	108	108	108
EPS Rs (adjusted)	16.0	8.8	16.2	20.4	25.6

Cash Flow Statement

Particulars	FY22	FY23	FY24E	FY25E	FY26E
PBT	3,261	2,563	2,385	3,005	3,762
Other Financial adjust.	413	246	44	44	44
Chg. in working capital	1,005	553	(687)	705	1,104
Interest Paid	56	107	161	177	195
Tax Paid & Other Adj	(2,150)	(2,535)	(603)	(759)	(950)
Cashflow from operat.	2,585	934	1,301	3,172	4,155
Capital exp. & Advances	(337)	(651)	(792)	(992)	(992)
ROU					
Chg. in investments	(2,435)	(3,397)	-	(500)	1,500
Other investing cashflow	533	4,174	-	-	-
Cashflow from invest.	(2,240)	126	(792)	(1,492)	508
Issue of equity	-	(704)	-	-	-
Issue/repay debt	(77)	-	-	-	-
Interest Paid	(56)	(107)	(161)	(177)	(195)
Dividends paid	(495)	(220)	(646)	(1,076)	(1,076)
Cashflow from finan.	(628)	(1,030)	(807)	(1,253)	(1,271)
Chg. in cash & cash eq	(283)	29	(298)	427	3,392
Open. cash & cash eq	737	455	1,462	1,163	1,590
Closing cash & cash eq	455	484	1,163	1,590	4,981
Free cash flow to firm	2,248	282	509	2,180	3,163

Balance Sheet

Particulars	FY22	FY23	FY24E	FY25E	FY26E
APPLICATION OF FUNDS :					
Non Current Assets	4,595	1,763	8,011	10,959	13,907
Goodwill	10	-	-	-	-
Gross block (Total)	7,094	1,206	1,952	2,952	3,952
Less : accumulated depreciation (Total)	2,852	728	772	816	860
Net block (Total)	4,242	478	1,180	2,136	3,092
ROU	339	334	326	318	310
Capital work in progress	-	946	1,000	1,000	1,000
Noncurrent investment	5	5	5,505	7,505	9,505
Current Assets	20,565	25,926	26,340	29,815	33,846
Current investment	10,485	13,043	7,543	6,043	2,543
Inventories	271	1,011	1,644	2,158	2,771
Sundry debtors	5,840	6,413	10,572	12,407	15,933
Cash and bank	467	1,462	1,163	1,590	4,981
Short loans & advances	1,085	1,564	2,500	3,500	3,500
Others current assets	2,417	2,434	2,917	4,117	4,117
Total Assets	25,160	27,689	34,351	40,774	47,753
SOURCES OF FUNDS :					
Share Capital	220	215	215	215	215
Reserves	18,147	19,087	20,223	21,393	23,129
Minority Interest	0	0	0	0	0
Total Shareholders Funds	18,368	19,302	20,439	21,608	23,344
Non-Current Liabilities	1,221	717	717	717	717
Total borrowings	-	-	-	-	-
Deferred tax liability	1,221	717	717	717	717
Other long term liabilities	-	-	-	-	-
Long-term provisions	-	-	-	-	-
Current Liabilities	5,572	7,669	13,195	18,449	23,692
Short term borrowings	-	-	-	-	-
Trade payables	5,558	7,614	13,117	18,341	23,553
Other current liabilities	-	-	-	-	-
Short term provisions	14	56	78	108	139
Total Equity & Liabilities	25,160	27,689	34,351	40,774	47,753
Net Working Capital*	4,041	3,752	4,439	3,733	2,630
Total Gross Debt**	-	-	-	-	-
Total Net Debt	(10,952)	(14,505)	(8,706)	(7,633)	(7,525)
Total Invested Capital	7,416	4,797	11,732	13,975	15,819
Capital Employed***	18,368	19,302	20,439	21,608	23,344

Source: Company, AMSEC Research

Ratios

Particulars	FY22	FY23	FY24E	FY25E	FY26E
PER SHARE					
EPS Rs (adjusted)	16.0	8.8	16.2	20.4	25.6
CEPS Rs	26.8	9.2	16.2	20.3	25.3
Book Value Rs	167.0	175.5	185.8	196.4	212.2
VALUATION					
EV / Net Sales	5.7	6.8	4.0	2.8	2.1
EV / EBITDA	27.6	64.8	29.8	21.2	15.8
P / E Ratio	41.1	74.8	40.5	32.2	25.7
P / BV Ratio	3.9	3.7	3.5	3.3	3.1
FCF Yield (%)	0.0	0.0	0.0	0.0	0.0
GROWTH YOY%					
Sales Growth	23.2	(22.8)	72.3	37.8	28.4
EBITDA Growth	12.1	(61.0)	118.5	38.1	30.0
Net Profit Growth	20.0	(45.1)	84.5	26.0	25.2
PROFITABILITY (%)					
EBITDA / Net Sales	20.7	10.4	13.3	13.3	13.4
EBIT / Net sales	20.6	18.5	17.8	16.2	15.6
NPM / Total income	15.8	10.7	11.9	11.1	10.9
CFO/EBITDA %	145.9	161.3	100.5	150.3	150.2
CFO/PAT %	147.0	96.6	73.0	141.2	147.7
Raw Material/Net Sales	69.5	75.4	75.4	75.4	75.4
Int/PBIT	2.5	6.9	6.3	5.6	4.9
Core ROaNW (Ex cash)	18.4	7.6	22.9	28.2	37.0
Core ROaCE (Ex Cash)	15.7	7.6	22.2	27.2	35.3
ROaNW	10.2	5.1	9.0	10.7	12.5
ROaCE	18.0	12.9	25.2	28.2	28.5
Tax / PBT	20.2	32.5	25.3	25.3	25.3
TURNOVER					
Net Working Cycle (Days)	137	160	110	67	36
Debtors Velocity (Days)	199	282	270	230	230
Inventory (Days)	9	44	42	40	40
Creditors Velocity (Days)	189	335	335	340	340
LIQUIDITY					
Current Ratio	1.8	1.7	1.4	1.3	1.3
Quick Ratio	1.8	1.5	1.3	1.2	1.2
Gross Asset Ratio	1.5	2.0	9.0	8.0	7.3
Total Asset Ratio	0.5	0.3	0.5	0.5	0.6
Net Debt-Equity Ratio	(0.6)	(0.8)	(0.4)	(0.4)	(0.3)
Interest Coverage (x)	39.3	14.4	15.8	18.0	20.3
PAYOUT					
DPS (Rs)	2.0	6.0	10.0	10.0	10.0
Payout %	62.6	22.3	36.2	47.9	38.3
Yield %	0.3	0.9	1.5	1.5	1.5



Recommendation rationale

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

Sector rating

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

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