

COMPANY UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	602
12 month price target (INR)	631
52 Week High/Low	619/278
Market cap (INR bn/USD bn)	65/0.8
Free float (%)	0.0
Avg. daily value traded (INR mn)	69.0

SHAREHOLDING PATTERN

	Mar-23	Dec-22	Sep-22
Promoter	61.51%	61.16%	60.2%
FII	2.1%	1.69%	1.62%
DII	25.04%	25.95%	26.81%
Pledge	0%	0%	0%

FINANCIALS

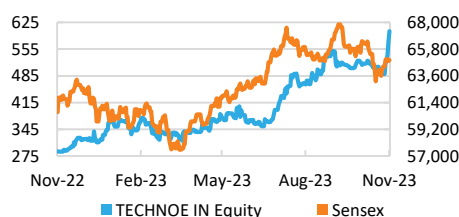
(INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Revenue	8,295	16,272	20,914	30,644
EBITDA	827	1,953	2,740	4,321
Adjusted profit	926	2,044	2,756	3,924
Diluted EPS (INR)	8.4	18.6	25.1	35.7
EPS growth (%)	(64.9)	120.8	34.8	42.4
RoAE (%)	4.9	10.2	12.7	16.1
P/E (x)	71.4	32.3	24.0	16.8
EV/EBITDA (x)	64.4	26.8	18.5	12.4
Dividend yield (%)	1.0	1.0	1.0	1.0

CHANGE IN ESTIMATES

Year to March	Revised estimates		% Revision	
	FY24E	FY25E	FY24E	FY25E
Revenue	16,272	20,914	-6.0	2.0
EBITDA	1,953	2,740	-6.0	2.0
Adjusted profit	2,044	2,756	5.0	17
Diluted EPS (INR)	18.6	25.1	5.0	17

PRICE PERFORMANCE



Dual triggers: T&D and smart metering

Techno Electric (TEEC), a market leader in power substation EPC works, is seeing a resurgence in orders driven by: i) ISTS Transmission capex of INR2.4tn for GEC; ii) large opportunities in intra-state smart metering; and iii) FGD plants and data centres capex.

TEEC's H1FY24 backlog stands at INR36.5bn, with *H1 order inflows at INR6bn (entirely transmission)*. We find TEEC exceeding its FY24 inflow guidance of INR50bn, given its L1 position in *INR43bn of projects—almost entirely smart metering*. TEEC has guided for 12-13% OPMs, which in our view has upside as execution begins to gather pace by FY25-26E. We expect FY23-26E adj. EPS CAGR of 60%-plus. Upgrade to 'BUY' with a TP of INR631 (earlier INR354) based on 18x Mar-26E EPS.

Blockbuster Q2 results led by strong execution

Overall revenue grew 148% YoY to INR4.6bn on the back of 2.5x growth in EPC to INR4.5bn versus INR1.8bn in Q2FY23 and 49% YoY growth in Corporate stood at INR282mn versus INR190mn in Q2FY23. EBITDA margin stood at 16.8% versus 17.4% in Q2FY23 due to better sales mix though full year margins are still expected around 13%. Robust backlog of ~INR36bn provides strong revenue visibility (4.3x FY23 sales): transmission (mainly substation, 44%), generation (38%) and distribution (mainly smart metering, 10%). CFO decreased to INR(208mn) in H1FY24 vs INR(57mn) in H1FY23 on higher WC. Cash balance is healthy at INR14bn at end-Sep-23.

INR3tn opportunity; earnings visibility improves

TEEC has a deep footprint across power generation, transmission and distribution (GTD) and allied infra segments. It is riding on an INR3tn opportunity over the next six years in four major verticals: i) INR1.5tn transmission capex backed by Green Energy Corridor (INR1.08tn estimated for sub-stations) and renewed focus on inter-state, apart from grid upgradation (INR0.5tn). ii) INR0.5tn smart metering opportunity in the RDSS scheme—margins are better than other EPC business. iii) INR0.8tn FGD awards for 80GW thermal capacities owned by SEBs/private players. iv) INR0.3tn third-party data centre EPC opportunity. Presently, TEEC works on an ownership-basis for data centres, but it would gradually move to third-party EPC. Current OB of INR36bn (ex-in-house data centre) implies 4x FY23 revenues visibility.

Outlook and valuation: Proxy for 'power-full' capex; upgrade to 'BUY'

TEEC is a diversified play on Gol's focus on strengthening the power sector's value chain. Moreover, the company bids selectively for complex jobs, with higher profitability and cash flows. It bids for projects funded by either bilateral, multilateral or government funding agencies to ensure reliable payment structure and cash flows. We peg adjusted earnings CAGR at 60%+ over FY23-26E led by transmission (substation), smart meters, etc along with an improving margins trajectory by FY26E.

In summary, we believe the dual triggers of transmission and smart metering have just begun to fire and the best is yet to come for TEEC. We are upgrading to 'BUY' (from 'HOLD') with a TP of INR631 (earlier INR354) assigning 18x P/E to its FY26E EPS.

Financial Statements

Income Statement (INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Total operating income	8,295	16,272	20,914	30,644
Energy Cost	6,258	12,855	16,313	23,902
Employee costs	422	488	607	889
Other expenses	789	976	1,255	1,532
EBITDA	827	1,953	2,740	4,321
Depreciation	76	427	428	429
Less: Interest expense	107	56	56	56
Add: Other income	746	1,151	1,278	1,069
Profit before tax	1,390	2,621	3,534	4,905
Prov for tax	464	577	777	981
Less: Other adj	0	0	0	0
Reported profit	926	2,044	2,756	3,924
Less: Excp.item (net)	0	0	0	0
Adjusted profit	926	2,044	2,756	3,924
Diluted shares o/s	110	110	110	110
Adjusted diluted EPS	8.4	18.6	25.1	35.7
DPS (INR)	6.0	6.0	6.0	6.0
Tax rate (%)	33.4	22.0	22.0	20.0

Important Ratios (%)

Year to March	FY23A	FY24E	FY25E	FY26E
COGS as a % of revenues	0.8	0.8	0.8	0.8
Empl. cost as % of rev.	0.1	0	0	0
Other exp. as % of rev.	0.1	0.1	0.1	0.1
EBITDA margin (%)	10.0	12.0	13.1	14.1
Net profit margin (%)	11.2	12.6	13.2	12.8
Revenue growth (% YoY)	(22.8)	96.2	28.5	46.5
EBITDA growth (% YoY)	(62.8)	136.2	40.3	57.7
Adj. profit growth (%)	(64.9)	120.8	34.8	42.4

Assumptions (%)

Year to March	FY23A	FY24E	FY25E	FY26E
GDP (YoY %)	7.3	7.3	7.3	7.3
Repo rate (%)	5.8	5.8	5.8	5.8
USD/INR (average)	72.0	72.0	72.0	72.0
EPC order intake (INRbn)	14.4	14.4	14.4	14.4
EPC Revenue growth (%)	(10.8)	(10.8)	(10.8)	(10.8)
EPC EBIT margin	16.6	16.6	16.6	16.6
Windrevenue growth(%)	2.3	2.3	2.3	2.3
Tax rate (%)	21.5	21.5	21.5	21.5
Capex (INR mn)	(0.5)	(0.5)	(0.5)	(0.5)

Valuation Metrics

Year to March	FY23A	FY24E	FY25E	FY26E
Diluted P/E (x)	71.4	32.3	24.0	16.8
Price/BV (x)	3.4	3.2	2.9	2.5
EV/EBITDA (x)	64.4	26.8	18.5	12.4
Dividend yield (%)	1.0	1.0	1.0	1.0

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Share capital	215	215	215	215
Reserves	19,191	20,520	22,561	25,770
Shareholders funds	19,406	20,736	22,777	25,985
Minority interest	26	26	26	26
Borrowings	0	0	0	0
Trade payables	5,202	6,515	8,268	12,115
Other liabs & prov	1,342	1,342	1,342	1,342
Total liabilities	27,820	30,646	34,643	41,921
Net block	478	3,758	3,345	2,931
Intangible assets	0	0	0	0
Capital WIP	946	0	0	0
Total fixed assets	1,758	3,758	3,345	2,931
Non current inv	5	5	5	5
Cash/cash equivalent	14,505	15,352	17,040	14,252
Sundry debtors	6,413	9,139	11,746	17,211
Loans & advances	1,423	1,423	1,423	1,423
Other assets	3,716	3,128	3,242	3,491
Total assets	27,820	30,646	34,643	41,921

Free Cash Flow (INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Reported profit	926	2,044	2,756	3,924
Add: Depreciation	76	427	428	429
Interest (net of tax)	71	44	44	45
Others	365	(1,139)	(1,266)	(1,058)
Less: Changes in WC	(382)	(825)	(968)	(1,868)
Operating cash flow	1,056	551	994	1,472
Less: Capex	(29)	(15)	(15)	(15)
Free cash flow	1,027	536	979	1,457

Key Ratios

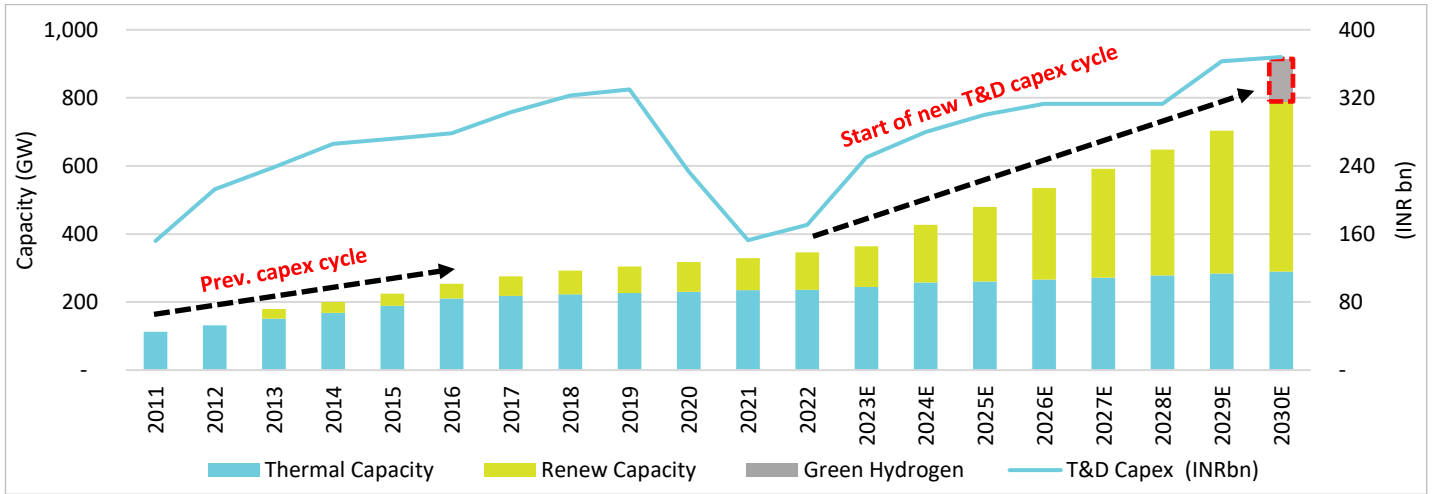
Year to March	FY23A	FY24E	FY25E	FY26E
RoE (%)	4.9	10.2	12.7	16.1
RoCE (%)	7.9	13.3	16.5	20.3
Inventory days	37	20	11	10
Receivable days	270	174	182	172
Payable days	274	166	165	156
Working cap (% sales)	69.0	40.3	35.9	30.6
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(0.7)	(0.7)	(0.7)	(0.5)
Interest coverage (x)	7.0	27.1	41.1	69.2

Valuation Drivers

Year to March	FY23A	FY24E	FY25E	FY26E
EPS growth (%)	(64.9)	120.8	34.8	42.4
RoE (%)	4.9	10.2	12.7	16.1
EBITDA growth (%)	(62.8)	136.2	40.3	57.7
Payout ratio (%)	71.3	32.3	23.9	16.8

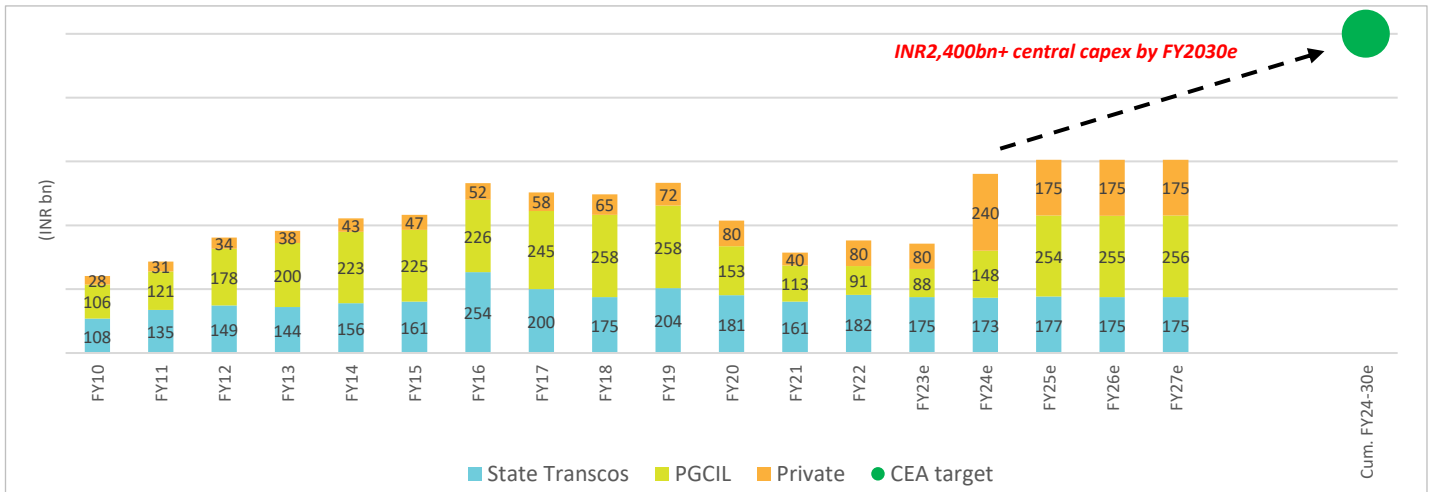
Macro Focus Charts

Exhibit 1: Renewable capex to spur next cycle of T&D capex (inter-state)



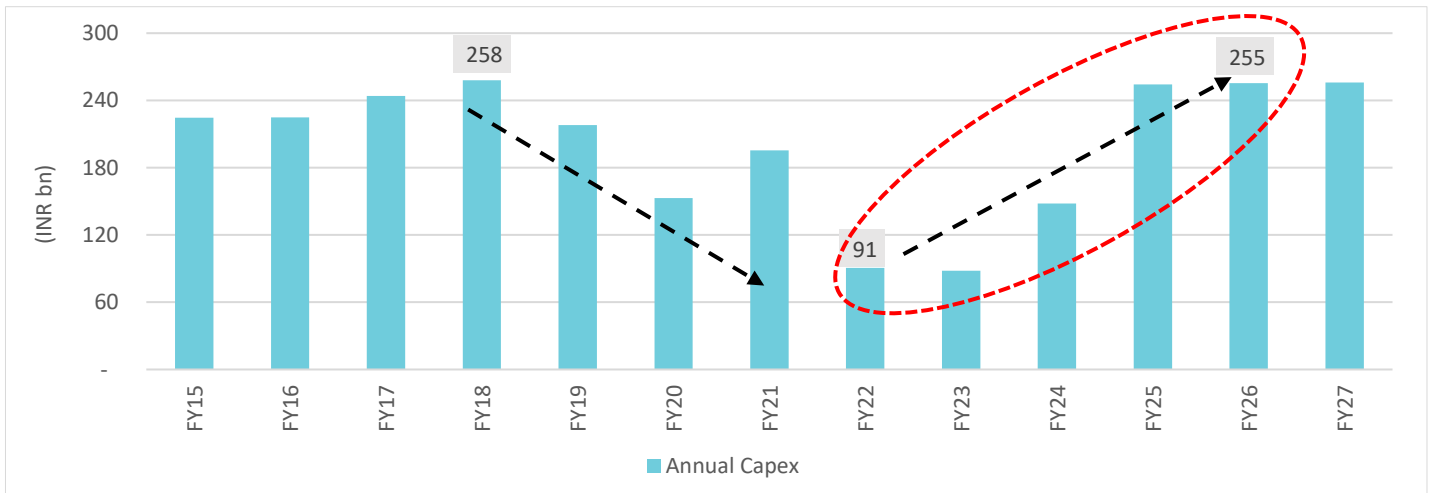
Source: Company, Nuvama Research

Exhibit 2: Upcoming transmission capex cycle expected to be tremendous vis-à-vis previous cycle



Source: PGCIL, PFC India, CEA, Nuvama Research

Exhibit 3: PGCIL's capex to grow 2x, assuming 40% share of INR2.4tn capex



Source: Company, Nuvama Research

Exhibit 4: Four HVDC projects in the pipeline

HVDC Projects	Size (MW)	Cost (INR bn)	Likely award	Comments
±800 kV Bhadla-III - Fatehpur HVDC line	6,000	150-200	FY24-27E	- 6,000 MW, + 800 kV HVDC system between Bhadla-III and Fatehpur - Recommended by NCT in its 9th meeting held on 28.09.2022. - Initiating process for bidding of the scheme
±350kV Pang - Kaithal HVDC line	5,000	450-500	FY23-25E	- + 350 kV, 5,000 MW VSC based HVDC link from Pang to Kaithal. - Allocated to PGCIL in January 2022, through RTM route
±800kV Barmer-II - Jabalpur HVDC line	6,000	150-200	FY24-27E	±800kV HVDC line between Barmer-II (HVDC) -Jabalpur PS(~1,100km)
±800kV Khavda - Aurangabad HVDC line	8,000	150-200	FY24-27E	Khavda – Aurangabad 8,000MW, ±800kV HVDC line
Total	25,000	900-1,100	FY24-30E	

Source: CEA, Nuvama Research

Exhibit 5: Transmission line: 800kV has high CAGR; but 400/220kV takes lion's share in CKM terms

Transmission line length (ckm)	FY23*	FY30	Change (%)
+ 800 kv HVDC	9,655	15,855	64.2%
+ 500 kv HVDC	9,432	9,432	NA
+ 350 kv HVDC		1,920	NA
+ 320 kv HVDC	288	288	NA
765 kv	51,938	77,898	50.0%
400 kv	1,96,138	2,11,896	8.0%
220 kv	1,96,307	1,97,359	0.5%
Total	4,63,758	5,14,648	11.0%

Source: CEA, Nuvama Research

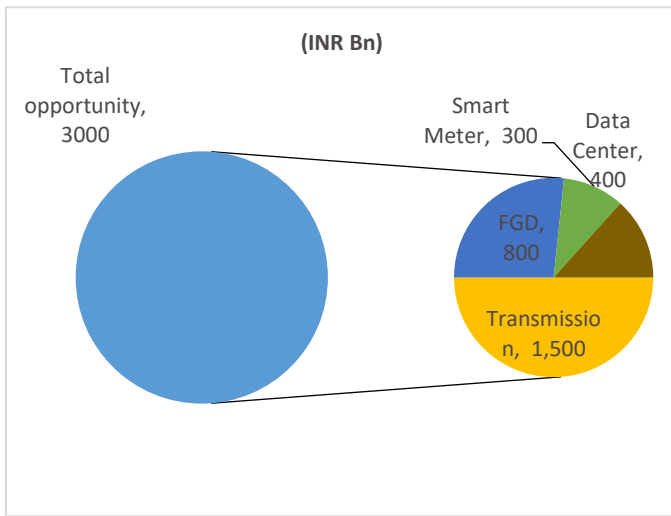
Exhibit 6: Substations: 800/765kV has high CAGR; but 400/200kV significant in MVA terms

Sub-station capacity (MVA)	FY23*	FY30	Change (%)
+ 800 kv HVDC	18,000	38,000	111.1%
+ 500 kv HVDC	13,500	13,500	NA
+ 350 kv HVDC		5,000	NA
+ 320 kv HVDC	2,000	2,000	NA
765 kv	2,67,700	5,42,200	102.5%
400 kv	4,08,933	5,43,008	32.8%
220 kv	4,34,974	4,34,974	0.0%
Total	11,45,107	15,78,682	37.9%

Source: CEA, Nuvama Research

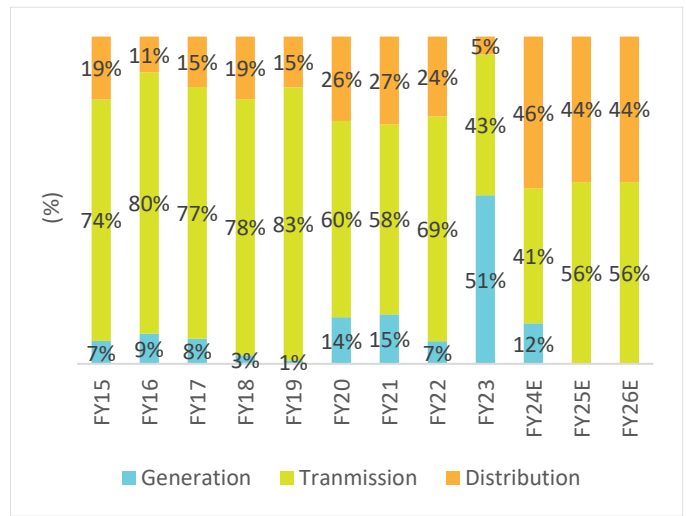
Company Focus Charts

Exhibit 7: INR3tn opportunity across segments



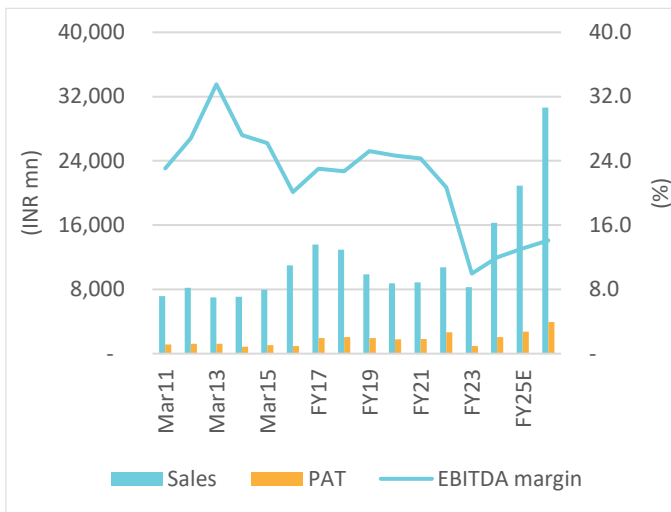
Source: Company, Nuvama Research

Exhibit 8: Higher transmission mix share



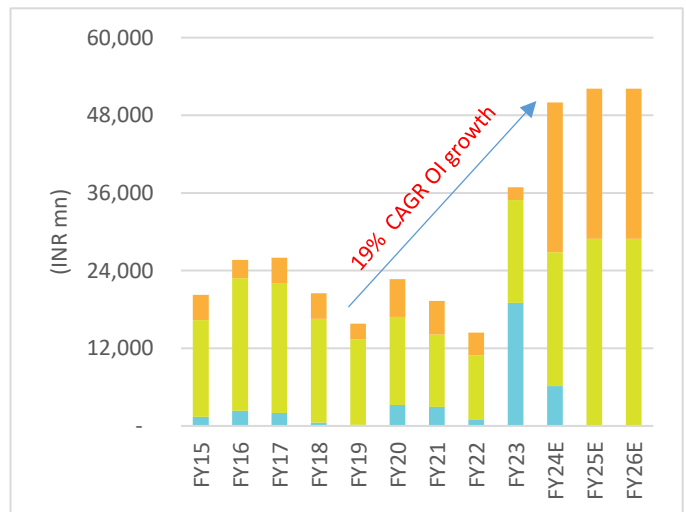
Source: Company, Nuvama Research

Exhibit 9: Execution pick-up led by change in orders mix



Source: Company, Nuvama Research

Exhibit 10: Order intake ~19% CAGR over FY19-26E



Source: Company, Nuvama Research

Exhibit 11: Quarterly financial statement

Year to March	Q2FY24	Q2FY23	YoY % change	Q1FY23	QoQ % change
Revenues	4,623	1,858	148.8	2,739	68.8
Raw material	3,530	1,298	171.9	2,263	56.0
Staff costs	117	100	16.3	105	10.7
Other operating expenses	200	136	47.7	160	25.3
Total expenditure	3,847	1,534	150.8	2,528	52.2
EBITDA	776	324	139.6	211	267.2
Depreciation	19	19	0.4	20	(6.7)
EBIT	757	305	148.1	191	295.8
Less: Interest Expense	40	13	206.0	42	(5.8)
Add: Other income	288	190	51.6	312	(7.7)
Add: Exceptional items	0	0		0	NM
PBT	1,005	482	108.5	461	118.0
Less: Provision for Tax	267	121	120.1	183	46.2
Minority interest	0	0	NM	0	NM
Reported Profit	738	361	104.6	278	165.1
Adjusted Profit	738	361	104.6	278	165.1
	27%	25%			
Equity capital (FV INR 2)	215	215		215	
No. of shares (mn)	113	113		113	
Diluted EPS (INR)	6.5	3.2		2.5	
Diluted P/E (x)					
EV/EBITDA (x)	0		1.5		
ROAE (%)					
as % of net revenues					
Raw material	76.4	69.9		82.6	
Staff expenses	2.5	5.4		3.9	
Other operating expenses	4.3	7.3		5.8	
EBITDA	16.8	17.4	(0.6)	7.7	
Net profit	16.0	19.4		10.2	
Tax rate	26.6	25.2		39.6	

Source: Company, Nuvama Research

Exhibit 12: FY36E EPS sensitivity on revenue growth and EBITDA margin

FY26 EPS	Revenue growth					
	36	25%	30.0%	35%	40%	47%
EBITDA margin	11	23	24	25	26	27
	12	25	26	27	28	30
	13	27	29	30	31	33
	14	30	31	32	34	36
	15	32	33	35	36	38

Source: Company, Nuvama Research

Company Description

TEEC was incorporated in 1963 by Mohankas to provide EPC services to core sector industries in India. At present, the company is one of India's most important power infrastructure companies. In three industry categories of generation, transmission, and distribution, TEEC is at the forefront of EPC, asset ownership and operations & maintenance (O&M) services. The company boasts a four-decade track record of operating in India's power infrastructure through its EPC and O&M services, and asset ownership model. TEEC operates across three broad power-related industries, including generation, transmission and distribution.

Investment Rationale

TEEC is a play on India's rising focus on strengthening RE landscape and distribution, apart from digitalisation initiatives; it is appositely positioned to tap into the INR3tn opportunity across traditional and emerging businesses

Of the INR3tn opportunity, INR1.5tn pertains to transmission capex: INR0.8tn from FGD packages, INR0.5tn from smart metering opportunity and remainder INR0.3tn from third-party data centre EPC opportunities.

A key differentiator is TEEC's bottom line-centric approach and its ability to identify new opportunities and successfully building up critical mass; furthermore, its robust balance sheet shall get a leg-up from sale of wind assets.

Key Risks

- Delayed order awards, execution in power.
- Deferred uptick in industrial capex due to contagion.
- Heightened competitive intensity could erode profitability.
- Lower utilisation and evacuation issues in wind power assets.
- Suboptimal capital allocation.

Additional Data

Management

CEO	Padam Prakash Gupta
CFO	Pradeep Kumar Lohia
WTD	Ankit Saraiya
CS	N. Brahma
Auditor	Walker Chandio & Co LLP

Holdings – Top 10*

	% Holding		% Holding
DSP Investment	8.17	Nippon Life Ind	0.77
HDFC Asset Mana	5.73	Dimensional Fun	0.76
Kotak Mahindra	4.56	ICICI Prudentia	0.37
L&T Mutual Fund	2.42		
UTI Asset Manag	2.13		

*Latest public data

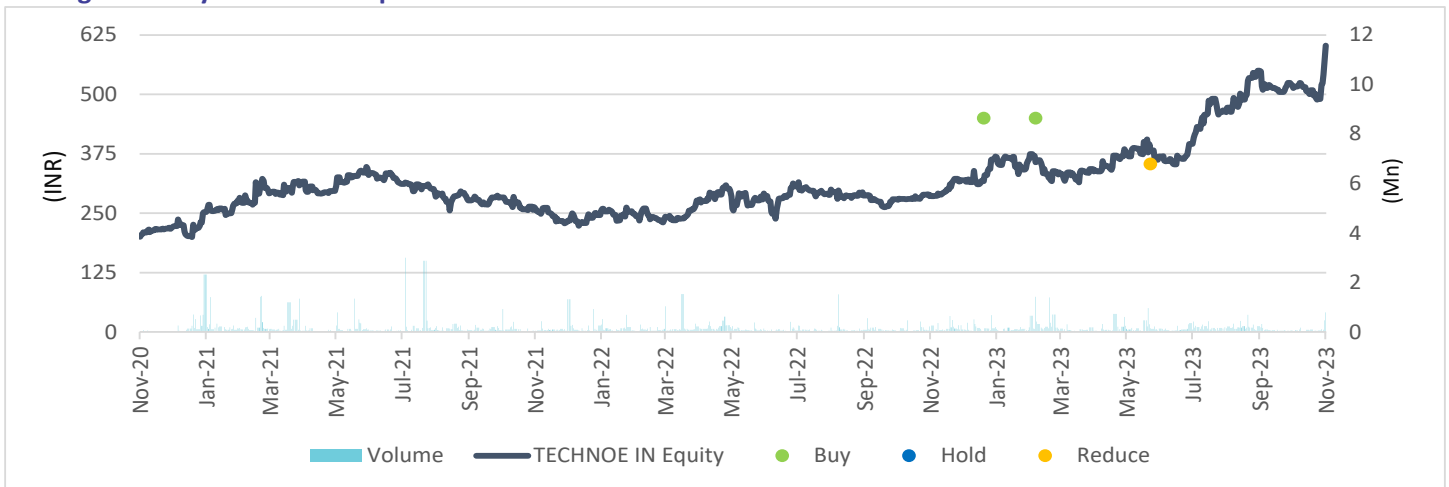
Recent Company Research

Date	Title	Price	Reco
01-Jun-23	Fall from power; outlook dull ; <i>Result Update</i>	387	Reduce
15-Feb-23	Lacklustre quarter; growth story intact; <i>Result Update</i>	356	Buy
29-Dec-22	A value powerhouse; <i>Initiating Coverage</i>	320	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
09-Nov-23	Power Corporation	Grid Adj PAT +9% YoY; revises capex guidance; <i>Result Update</i>
09-Nov-23	CESC	Strong quarter; dividend yield story; <i>Result Update</i>
09-Nov-23	Tata Power	UMPP under Sec-11 drives adjusted PAT; <i>Result Update</i>

Rating and Daily Volume Interpretation



Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	208
Hold	<15% and >-5%	59
Reduce	<-5%	18

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