

TECHNO ELECTRIC & ENGINEERING

Recovery on cards

India Equity Research | Engineering and Capital Goods



Techno Electric & Engineering (TEEC) reported recovery in revenue (up 18% QoQ) and order intake (YTD-INR7bn) in Q3FY19. An important development was that Green Energy corridor orders worth INR120bn have been advanced to over the next two to three months (from FY20 end). This imparts TEEC healthy new orders (INR7.5-10bn) visibility given its dominance in 765KV AIS sub-stations. Based on this, management estimates FY20 order intake at INR20bn (our estimate INR15bn) with 25% revenue growth. Our conviction in TEEC's long-term prospects and attractive valuation render the company a good T&D play. Maintain 'BUY' with target price of INR295.

EPC revenue perks up; balance sheet focus drives savings

Post a weak H1, TEEC reported 18% QoQ revenue growth led by 47% spurt in EPC revenue. Wind revenue was impacted by seasonality (Q2 versus Q3) and 10% loss on account of weak generation schedules due to non-functionality at a wind site. EPC margin improved 500bps to 16% (9mFY19 margin at 18.4%). YTD order intake stood at INR7bn and management expects to end FY19 with INR15bn (our estimate INR11bn as we expect some orders to spill over to FY20). TEEC's focus on improving working capital (debtor reduction) reflected in lower interest cost in 9mFY19 (down ~40%).

Smart recovery in order inflow on the cards

Transmission connectivity to pending SECI orders (green energy corridor) now stands finalised for orders worth INR120bn, of which INR30bn has been awarded to PGCIL and INR90bn will be awarded on TBCB basis. This bodes well for TEEC as these corridors will be set up on 765kVa transmission lines with AIS sub-stations wherein TEEC has a dominant market share (~50% in past three years). TEEC expects to bag order intake of ~INR7.5-10.0bn from this opportunity, apart from the USD70mn orders from Kenya and Afghanistan in Q4/Q1FY20.

Outlook and valuation: Maintaining its edge; maintain 'BUY'

Prudent capital allocation strategy, bottom line-centric approach, strong balance sheet & FCF and technology edge brighten TEEC's prospects over the next two-three years. We maintain 'BUY/SP' with SOTP-based target price of INR295 assigning 16x to its EPC business. At CMP, the stock trades at 11/9x FY20/21 EPS.

Financials (Consol)

(INR mn)

Year to March	Q3FY19	Q2FY19	% change	FY18	FY19E	FY20E
Net revenues	2,694	2,293	17.5	12,944	11,585	13,659
EBITDA	483	693	(30.3)	2,941	2,784	3,209
Adj. Net profit	307	536	(42.8)	2,004	1,906	2,267
Dil. EPS (INR)	2.7	4.8	0.0	17.8	16.9	20.1
Diluted P/E (x)				12.2	13.1	11.0
EV/EBITDA (x)				7.0	6.6	5.6
ROAE (%)				17.5	14.6	15.7

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA (R: TEEC BO, B: TECHNOE IN)

CMP	: INR 226
Target Price	: INR 295
52-week range (INR)	: 304 / 216
Share in issue (mn)	: 112.7
M cap (INR bn/USD mn)	: 25 / 358
Avg. Daily Vol.BSE/NSE('000)	: 75.0

SHARE HOLDING PATTERN (%)

	Current	Q2FY19	Q1FY19
Promoters *	58.8	58.8	58.8
MF's, FI's & BK's	23.2	23.2	22.6
FII's	1.3	1.3	1.5
Others	16.8	16.8	17.2
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Capital Goods Index
1 month	(8.4)	(0.3)	6.0
3 months	N/A	4.3	(1.6)
12 months	N/A	(1.8)	(3.9)

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February 11, 2019

Q3FY19 conference call: Key highlights

FY19 has been a year of consolidation wherein the focus is on receiving retention money by completing projects.

Consolidation of Simran has been completed to have a larger balance sheet so that it will be eligible to bid for larger orders, enhance its ability to bid for commercial packages and tax savings.

Performance

- Wind revenue YTD19 stood at INR0.94bn versus INR1.22bn YoY. The revenue was lower due to:
 - Generation based incentive benefit is now getting exhausted and is not available for 72GW.
 - Wind revenue was lower by 10% due to failure of transformer resulting in lower units (25 units) amounting to INR100mn.
- EBITDA was impacted due to wind segment's underperformance.
- REC prices continued to rise with robust demand and limited supply. REC were trading at INR1,500 (50% above the floor price in the previous month) which TEEC mitigate losses from the wind segment.
- Debt of INR550bn is expected to be repaid by next year and cash balance stands at INR5bn plus.

Order inflow and order book

- Order book of INR18bn to be executed over 11 months. Of this, generation is INR0.65bn (PGCIL), transmission INR14bn and distribution INR3.5bn. NTPC contributes INR5bn to the total order book.
- Order inflow of INR 3.1bn. Order inflow over 9mFY19 stands at INR7bn. INR3bn worth orders in Q3FY19 were primarily from various states like MP/Bihar and some wind projects (Gamesha, Suzlon).

Guidance

- Target revenue growth of 25% in FY20 and revenue growth in FY19 similar to that in FY18.
- Order book is estimated at INR25bn in FY20.
- Order inflow of INR15bn expected in FY19 and INR20bn in FY20.
- EPC project – 15% operating margin; employee hiring expected to increase.
- Capex: No capex required on the EPC front. However, there will be investment on the TBCB front (INR2.0-2.5bn).
- Kohima project: No revenue has been booked; should be ready with the building in April; has to complete it by May 2020 and INR2.5bn will come. The company has plans of monetizing the asset and Kalpataru is on board to buy it.
- Damodar Valley plans to be completed by March end.

Order Inflow

- Opportunity of INR250bn, of which INR120bn has been allotted.
 - INR30bn of the INR120bn has been allocated to PGCIL which has a scope of INR10bn for sub-station and INR20bn for line. Sub-station tenders have already been announced in which TEEC hopes to receive an order (80% of the sub-stations in Rajasthan are done by TEEC). The RFQ for which closes on Feb 18, 2019. This will involve setting up of 6 numbers of 5GW each plus 765KV level in Rajasthan where TEEC is the front runner and has a market share exceeding 50% and competition is low. The completion period of this is 15 months versus three-four years earlier.
 - The balance INR90bn are orders through TBCB route – nine packages of INR10bn each involving four greenfield stations (both two and four ways). TEEC is hopeful of winning atleast two session through the TBCB route.
 - All the projects have to be completed by PGCIL by June 2020 and the ones by TBCB route max by June-December 2020.
 - Balance INR120-130bn will be announced in three-four months.
- NTPC FGD: The company did not participate in the second lot of FGD NTPC, but will participate in lot 3. Lot 3 has five packages of INR10bn each of 2000MW plus each near Kolkata, which is an opportunity of another INR4bn for TEEC.
- Kenya and Afghanistan orders are on track and will be completed by March end latest.
 - **Kenya:** Final approval should be received by March.
 - **Afghanistan:** The existing order is getting doubled. This is now becoming a double line order worth USD40m. The company plans to bid for additional orders worth USD100mn.

Buyback

- The board has approved a buyback of INR1.1bn of shares at INR410/share.
- Promoter will not participate in the buyback post listing.

Table 1: SOTP valuation

Business Segments	Particulars	Amount (INR mn)	Valuation Method	Multiple (x)	Value (INR mn)	Value per share (INR)
EPC	PAT– June-20E	1,313	P/E	16	21,004	186
Energy	Book Value	4,183	P/B	1.5	6,274	56
Project	Book Value	353	P/B	1.5	529	5
Cash	Discounted at 14% COE	6,235			5,422	48
SOTP						295

Source: Edelweiss research

Financial snapshot: Standalone

(INR mn)

Year to March	Q3FY19	Q2FY19	% change	FY18	FY19E	FY20E
Revenues	2,694	2,293	17.5	12,944	11,585	13,659
Raw material	1,903	1,354	40.5	8,862	7,719	9,213
Staff costs	103	109	(5.4)	388	429	469
Other operating expenses	205	137	49.4	753	652	768
Total expenditure	2,211	1,600	38.2	10,003	8,801	10,450
EBITDA	483	693	(30.3)	2,941	2,784	3,209
Depreciation	105	104	0.2	424	449	466
EBIT	379	589	(35.7)	2,517	2,335	2,744
Less: Interest Expense	14	43	(68.1)	235	133	129
Add: Other income	140	119	17.2	370	468	499
Add: Exceptional items	0	0	NM	0	0	0
PBT	504	665	(24.1)	2,652	2,670	3,114
Less: Provision for Tax	198	129	53.7	647	763	847
Reported Profit	307	536	(42.8)	2,004	1,906	2,267
Adjusted Profit	307	536	(42.8)	2,004	1,906	2,267
Equity capital (FV INR 2)	225	225		225	225	225
No. of shares (mn)	113	113		113	113	113
Diluted EPS (INR)	2.7	4.8		17.8	16.9	20.1
Diluted P/E (x)				12.2	13.1	11.0
EV/EBITDA (x)				7.0	6.6	5.6
ROAE (%)				17.5	14.6	15.7
as % of net revenues						
Raw material	70.6	50.3		68.5	66.6	67.4
Staff expenses	3.8	4.0		3.0	3.7	3.4
Other operating expenses	7.6	5.1		5.8	5.6	5.6
EBITDA	17.9	25.7		22.7	24.0	23.5
Net profit	11.4	23.4		15.5	16.5	16.6
Tax rate	39.2	19.4		24.4	28.6	27.2

Company Description

TEEC was incorporated in 1963 by the Mohankas to provide EPC services to core sector industries in India. The company went public in 1973. In 1983, it was taken over by Mr. P.P. Gupta and Mr. C.L. Chamaria. Mr. Gupta became the sole promoter of TEEC after Mr. Chamaria's resignation from the board in 1995. The company is headquartered in Kolkata. TEEC boasts of an experienced team of over 175 engineers backed by 225 skilled professionals and 100 staff members. More than 80% of the company's business comes from repeat customers, a testimony to its execution capability. TEEC is a leading EPC services company in India's power sector and provides services to all the 3 industry segments—generation, transmission and distribution. It was involved in setting up (in one capacity or other) over 50% of the country's thermal power generation capacity and a major portion of the national power grid. It also possesses specific domain knowledge that enables it to serve the EPC needs of power, steel, fertiliser, metals and petrochemicals sectors, among others. It ventured into renewable energy via acquisition of wind assets in 2009. Its total installed capacity currently stands at 130MW (having sold 44.45MW in May 2015 and 33MW in Jan 17) with 12MW in standalone entity and balance 117.9MW in subsidiary Simran Wind Projects (Simran). In 2010, the company ventured into BOOT projects via the JV route as it bagged transmission project worth INR4.4bn in Haryana for a concession period of 25 years extendable by another 10 years. Subsequently, TEEC bagged another project worth INR2bn in Punjab in 2013. The company plans to extend / scale up this business further.

Investment Theme

INR2.6tn opportunities in EPC across power, industrial segments

Given the government's sharpened focus on cutting AT&C losses and thrust on renewables, we expect T&D spending to turn the spotlight on higher kV substations, in addition to spending on the green energy corridor to connect renewable energy to the grid. We envisage generation, transmission and distribution to throw up total EPC opportunity of INR2,602bn (INR520bn p.a.) over the next 5 years for TEEC. We anticipate it to corner ~10% of this. Uptick in industrial and exports would be over and above this.

Competitive MOAT: Selective approach with eye on RoE, cash flows

Engineering expertise to handle complex jobs is TEEC's forte. Moreover, the company is extremely selective in project bidding given its focus on complex jobs which normally entail higher profitability and cash flows. It bids for projects funded by either bilateral, multilateral or government funding agencies like PFC or REC to ensure reliable payments and cash flows.

Key Risks

- Delayed ordering, execution in power sector, currency risk
- Deferred uptick in industrial capex due to contagion
- Heightened competitive intensity could impact profitability
- Lower utilisation and evacuation issues in wind power assets
- Delay in BOOT projects

Financial Statements

Key Assumptions

Year to March	FY18	FY19E	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	6.7	7.1	7.1	7.3
Inflation (Avg)	3.6	3.7	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.8	5.8
USD/INR (Avg)	64.5	70.0	72.0	72.0
Company				
Order intake growth (%)	(0.5)	(12.0)	28.0	5.0
Revenue growth (%)	(3.1)	(10.4)	17.8	21.0
EBIT Margins (%)	15.4	17.0	16.5	16.5
Wind capacity (MW)	128.8	128.8	128.8	128.8
PLF (%)	22.0	19.0	22.0	22.5
Capex (INR mn)	4	350	350	350

Income statement

(INR mn)

Year to March	FY18	FY19E	FY20E	FY21E
Income from operations	12,944	11,585	13,659	16,286
Materials costs	8,862	7,719	9,213	11,054
Employee costs	388	429	469	512
Other mfg expenses	753	652	768	929
Total operating expenses	10,003	8,801	10,450	12,495
EBITDA	2,941	2,784	3,209	3,791
Depreciation	424	449	466	468
EBIT	2,517	2,335	2,744	3,322
Less: Interest Expense	235	133	129	114
Add: Other income	370	468	499	553
Profit Before Tax	2,652	2,670	3,114	3,762
Less: Provision for Tax	647	763	847	1,039
Associate profit share	55	19	25	38
Reported Profit	2,059	1,925	2,292	2,761
Adjusted Profit	2,059	1,925	2,292	2,761
Shares o /s (mn)	113	113	113	113
Adjusted Basic EPS	18.3	17.1	20.3	24.5
Diluted shares o/s (mn)	113	113	113	113
Adj. Diluted EPS (INR)	18.3	17.1	20.3	24.5
Adjusted Cash EPS	22.0	21.1	24.5	28.7
Dividend per share (DPS)	5.0	5.0	5.0	5.0
Dividend Payout Ratio(%)	32.8	35.1	29.5	24.5

Common size metrics

Year to March	FY18	FY19E	FY20E	FY21E
Materials costs	68.5	66.6	67.4	67.9
Staff costs	3.0	3.7	3.4	3.1
S G & A expenses	5.8	5.6	5.6	5.7
Operating expenses	77.3	76.0	76.5	76.7
Depreciation	3.3	3.9	3.4	2.9
Interest Expense	1.8	1.2	0.9	0.7
EBITDA margins	22.7	24.0	23.5	23.3
Net Profit margins	15.9	16.6	16.8	17.0

Growth ratios (%)

Year to March	FY18	FY19E	FY20E	FY21E
Revenues	(4.6)	(10.5)	17.9	19.2
EBITDA	(5.9)	(5.3)	15.3	18.1
Adjusted Profit	6.8	(6.5)	19.0	20.5
EPS	6.8	(6.5)	19.0	20.5

Balance sheet		(INR mn)			
As on 31st March	FY18	FY19E	FY20E	FY21E	
Share capital	225	225	225	225	
Reserves & Surplus	12,295	13,544	15,160	17,244	
Shareholders' funds	12,520	13,769	15,385	17,470	
Long term borrowings	224	224	224	224	
Short term borrowings	23	23	23	23	
Total Borrowings	247	247	247	247	
Long Term Liabilities	359	359	359	359	
Sources of funds	14,005	15,254	16,870	18,954	
Gross Block	9,638	9,988	10,338	10,688	
Net Block	5,846	5,747	5,631	5,513	
Intangible Assets	201	201	201	201	
Total Fixed Assets	6,047	5,948	5,832	5,714	
Non current investments	839	1,089	1,339	1,589	
Cash and Equivalents	4,083	5,856	6,235	6,916	
Inventories	78	106	252	303	
Sundry Debtors	7,578	6,665	7,671	9,370	
Loans & Advances	33	38	44	51	
Other Current Assets	725	870	1,131	1,470	
Current Assets (ex cash)	8,415	7,679	9,099	11,194	
Trade payable	4,492	3,784	4,102	4,925	
Other Current Liab	888	1,534	1,534	1,534	
Total Current Liab	5,380	5,318	5,635	6,458	
Net Curr Assets-ex cash	3,035	2,361	3,464	4,735	
Net Deferred tax	879	879	879	879	
Uses of funds	14,005	15,254	16,870	18,954	
BVPS (INR)	111.1	122.2	136.5	155.0	

Free cash flow		(INR mn)			
Year to March	FY18	FY19E	FY20E	FY21E	
Reported Profit	2,059	1,925	2,292	2,761	
Add: Depreciation	424	449	466	468	
Interest (Net of Tax)	178	95	94	82	
Others	57	38	35	31	
Less: Changes in WC	45	(674)	1,102	1,272	
Operating cash flow	2,673	3,182	1,784	2,071	
Less: Capex	4	350	350	350	
Free Cash Flow	2,669	2,832	1,434	1,721	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Techno Electric & Engineering	358	13.2	11.1	1.9	1.7	14.6	15.7
Kalpataru Power	771	13.9	12.0	1.8	1.5	13.4	13.7
KEC International	905	12.8	11.2	2.6	2.1	22.6	21.1
Median	-	13.2	11.2	1.9	1.7	14.6	15.7
AVERAGE	-	13.3	11.4	2.1	1.8	16.9	16.8

Source: Edelweiss research

Cash flow metrics		FY18	FY19E	FY20E	FY21E
Year to March					
Operating cash flow		2,673	3,182	1,784	2,071
Financing cash flow		(2,767)	(809)	(804)	(789)
Investing cash flow		(54)	(1,600)	(600)	(600)
Net cash Flow		(147)	773	379	681
Capex		(4)	(350)	(350)	(350)
Dividend paid		(676)	(676)	(676)	(676)

Profitability and efficiency ratios

Year to March	FY18	FY19E	FY20E	FY21E
ROAE (%)	17.5	14.6	15.7	16.8
ROACE (%)	22.3	20.9	21.9	23.2
Inventory Days	2	4	7	9
Debtors Days	193	224	192	191
Payable Days	163	196	156	149
Cash Conversion Cycle	32	33	42	51
Current Ratio	2.3	2.5	2.7	2.8
Debt/EBITDA (x)	0.1	0.1	0.1	0.1
Gross Debt/Equity	-	-	-	-
Adjusted Debt/Equity	-	-	-	-
Interest Coverage Ratio	10.7	17.5	21.3	29.2

Operating ratios

Year to March	FY18	FY19E	FY20E	FY21E
Total Asset Turnover	0.9	0.8	0.9	0.9
Fixed Asset Turnover	2.1	1.9	2.3	2.8
Equity Turnover	1.1	0.9	0.9	1.0

Valuation parameters

Year to March	FY18	FY19E	FY20E	FY21E
Adj. Diluted EPS (INR)	18.3	17.1	20.3	24.5
Y-o-Y growth (%)	6.8	(6.5)	19.0	20.5
Adjusted Cash EPS (INR)	22.0	21.1	24.5	28.7
Diluted P/E (x)	12.4	13.2	11.1	9.2
P/B (x)	2.0	1.9	1.7	1.5
EV / Sales (x)	1.6	1.6	1.3	1.0
EV / EBITDA (x)	7.4	7.1	6.1	5.0
Dividend Yield (%)	2.2	2.2	2.2	2.2

Additional Data

Directors Data

P P Gupta	Chairman	K K Rai	Independent Non-Executive Director
K M Poddar	Independent Non-Executive Director	K Vasudevan	Independent Non-Executive Director
S N Roy	Independent Non-Executive Director	Ankit Saraiya	Whole Time Director
Avantika Gupta	Non Executive Director	Dr. Rajendra Prasad Singh	Independent Director

Auditors - M/s Singhi & Co., Chartered Accountants

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Sbi funds management	5.6	Dsp investment manag	4.98
Kotak mahindra asset	4.12	L&t mutual fund/indi	3.66
Franklin resources i	1.87	L&t investment manag	0.82
Icici prudential lif	0.48	Idfc mutual fund/ind	0.16
Indiabulls asset man	0.02	State street corp	0.01

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
ABB India	HOLD	SP	M	Bharat Forge	REDUCE	SP	M
Bharat Heavy Electricals	BUY	SP	M	CG Power and Industrial Solutions	HOLD	SP	M
Cummins India	HOLD	SP	M	Engineers India Ltd	REDUCE	SU	M
Greaves Cotton	HOLD	SP	M	Kalpataru Power	BUY	SO	M
KEC International	BUY	SO	M	Larsen & Toubro	BUY	SO	M
Praj Industries	HOLD	None	None	Ramkrishna Forgings	BUY	SP	M
Siemens	HOLD	SP	L	Techno Electric & Engineering	BUY	SP	M
Thermax	REDUCE	SP	L	Triveni Turbine	BUY	None	None
VA Tech Wabag	BUY	None	None				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Engineering and Capital Goods

ABB India, Bharat Heavy Electricals, Bharat Forge, CG Power and Industrial Solutions, Engineers India Ltd, Greaves Cotton, KEC International, Cummins India, Kalpataru Power, Larsen & Toubro, Praj Industries, Ramkrishna Forgings, Siemens, Techno Electric & Engineering, Thermax, Triveni Turbine, VA Tech Wabag

Recent Research

Date	Company	Title	Price (INR)	Recos
08-Feb-19	Engineers India	Turnkey drags P&L; order traction awaited; <i>Result Update</i>	111	Reduce
07-Feb-19	Bajaj Electricals	Growth outperformance; managing EPC risk critical; <i>Result Update</i>	515	Hold
07-Feb-19	Cummins India	Mixed growth outlook; limited upside in the offing; <i>Result Update</i>	770	Hold

Distribution of Ratings / Market Cap

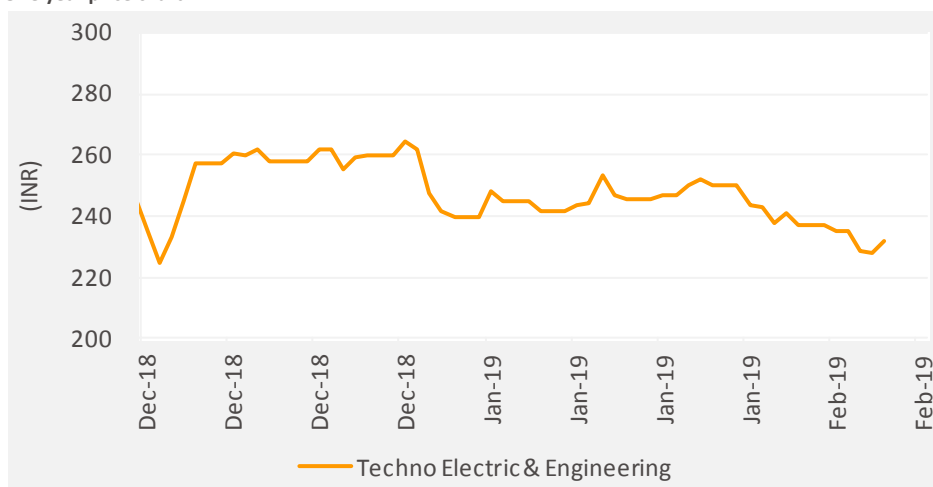
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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