

TECHNO ELECTRIC & ENGINEERING

Weak quarter; pinning hopes on order intake

India Equity Research | Engineering and Capital Goods



Techno Electric & Engineering (TEEC) reported weak Q4FY18 performance with PAT (up 25%) coming below estimates. Key highlights: 1) revenue declined 10% as few orders could not get billed; this, along with lower order intake in FY18 (flat growth) also impacted revenues; 2) order intake /revenue/PAT guidance of 20%/10%/15% by management, is likely to back ended; 3) on overall industry ordering, management was surprised by the slowdown in T&D ordering, but better traction in Flue Gas Desulphurisation ordering was comforting. TEEC's geographical diversification has its own risks and will be a key monitorable. While we cut FY19/20E earnings by 12%/4% building in lower order book (-18% YoY), we believe delays/slowdown in order intake for TEEC is a temporary blip as pickup in international orders along with ordering from SEBs will compensate for the decline in PGCIL's ordering. Maintain 'BUY' with a revised SoTP-based TP of INR405 (INR425 earlier).

Delay in billing leads to revenue decline; debt reduction continues

TEEC reported decline in revenues for the third consecutive quarter. The 10% dip in revenues (8% drop in EPC segment) was due to the delay in order billing (leading to higher inventory) and poor order intake. While order intake remained weak (INR0.6bn), TEEC is L1 in two orders from Afghanistan and Andhra Pradesh totaling INR1.3bn. Management continues to focus on closure of projects and debt reduction (repaid debt of INR2.5bn during FY18 - reflected in lower cash).

FY19 order intake to be back ended

Flat order intake in FY18 at INR18bn lowered revenue visibility to 1.8x (2.2x earlier). Management expects FY19 order intake at ~INR15-16bn, led by few big ticket orders in Africa and domestic FGD orders. While TEEC's geographical diversification could improve visibility, we are skeptical on margins guidance of ~15% as international orders are normally fixed price and need to be sub-contracted to local labour.

Outlook and valuations: Order intake key; maintain 'BUY'

TEEC's working capital management, efficient execution and healthy balance sheet lend comfort, but order intake remains crucial in FY19 to improve visibility (we expect 22% order intake CAGR over FY18-20). We estimate EPS CAGR of 17% over FY18-20, primarily led by EPC business. We maintain 'BUY/SP'.

Financials (Consol)

(INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net revenues	3,264	3,619	(9.8)	3,015	8.2	12,944	14,351	17,210
EBITDA	421	544	(22.6)	736	(42.7)	2,941	3,342	4,087
Adj. Net profit	269	333	(19.2)	435	(38.2)	2,059	2,253	2,832
Dil. EPS (INR)	2.4	3.0	0.0	3.9	0.0	18.3	20.0	25.1
Diluted P/E (x)						16.9	15.4	12.3
EV/EBITDA (x)						10.2	8.4	6.4
ROAE (%)						17.5	16.9	18.7

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: TEEC IN)

CMP	: INR 313
Target Price	: INR 405
52-week range (INR)	: 439 / 301
Share in issue (mn)	: 112.7
M cap (INR bn/USD mn)	: 35 / 522
Avg. Daily Vol.BSE/NSE('000)	: 101.8

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	58.8	58.8	58.8
MF's, FI's & BK's	18.1	18.1	17.5
FII's	4.1	4.1	4.6
Others	19.0	19.0	19.1
* Promoters pledged shares (% of share in issue)			NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Capital Goods Index
1 month	(8.1)	(1.2)	(1.0)
3 months	(17.6)	1.2	(0.0)
12 months	(20.2)	10.3	7.5

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May 30, 2018

Q4FY18 conference call: Key highlights

Performance:

- EPC and Wind segments are on steady footing.
- TEEC managed to grow ~10% on adjusted basis, despite being a year of consolidation.
- The company reduced consolidated debt to INR0.6bn. Cash was utilised for debt repayment of INR2.5bn
- It has order book of INR20.2bn (of which 45% was from PGCIL, INR2.87bn from distribution orders from Jharkhand, INR2bn from NTPC and balance from states).
- Order intake of INR0.6bn (from BS Transcom) and the company is L1 in INR1.16bn order from Afghanistan and INR0.2bn order from Andhra Pradesh.
- Inventory increased due to delay in billing of the orders to customers.

Guidance:

- Management expects orders worth INR2bn in Q1FY19 and INR15bn in FY19 with majority of the orders to be in H2FY18.
 - Expects business of INR7.5-8bn in T&D segment, out of which INR2.5bn will be from SEBs, INR2bn from PGCIL and balance from foreign orders (international order from Kenya of USD90mn mainly in Q2/Q3FY19. Apart from that, orders are expected in Nepal and Bangladesh).
 - Industry - INR2bn worth orders expected from refineries; and
 - INR4bn from FGD (West Bengal Development Corporation and DVC).
- Margin guidance of 15%
- ~10% revenue growth expected in FY19 and 25-30% in FY20 and FY21

Industry outlook:

- Management was surprised by the slowdown in domestic T&D, with the southern states being front-runners in terms of orders.
- Traction in FGD and energy seems comforting.
- Power Grid ordering process has been a little slow.
- NTPC is progressing a bit slowly in decision making (new orders should be over next two months). The company is bidding for new orders from NTPC for charging station.
- However, traction in foreign orders continue like from Kenya (2.5 years of execution period and should get executed by March/September 2020) and Bangladesh.

Other comments:

- Sale of 130MW is getting slightly delayed and the company is getting returns of 15% on the investment.
- INR0.6bn of REC bonds were monetised during the year.

Table 1: SoTP valuation

Business Segments	Particulars	Amount (INR mn)	Valuation Method	Multiple (x)	Value (INR mn)	Value per share (INR)
EPC	PAT – FY20E	1,840	P/E	20	36,607	325
Energy	Book Value	4,183	P/B	1.5	6,274	56
Project	Book Value	953	P/B	1.5	1,429	13
Cash	Discounted with 14% COE	1,678			1,280	11
Total Fair Value						405

Source: Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net revenues	3,264	3,619	(9.8)	3,015	8.2	12,944	14,351	17,210
Raw material	2,604	2,745	(5.1)	1,982	31.4	8,862	9,832	11,795
Staff costs	109	97	12.1	94	15.3	388	429	469
Other operating expenses	129	233	(44.4)	203	(36.2)	753	748	860
Total expenditure	2,843	3,075	(7.6)	2,279	24.7	10,003	11,009	13,124
EBITDA	421	544	(22.6)	736	(42.7)	2,941	3,342	4,087
Depreciation	106	110	(3.4)	106	0.4	424	463	479
EBIT	315	434	(27.4)	630	(50.0)	2,517	2,879	3,607
Interest	51	76	(32.8)	39	30.6	235	215	186
Other income	129	304	(57.4)	17	646.9	370	440	499
Profit before tax	394	663	(40.6)	609	(35.3)	2,652	3,104	3,921
Provision for taxes	125	367	(65.9)	170	(26.5)	647	869	1,114
Minority interest	-	37	(100.0)	(4)	(100.0)	55	19	25
Add: Exceptional items								
Reported net profit	269	333	(19.2)	435	(38.2)	2,059	2,253	2,832
Adjusted Profit	269	333	(19.2)	435	(38.2)	2,059	2,253	2,832
Equity capital(FV INR 2)	225	225		225		225	225	225
Diluted shares (mn)	113	113		113		113	113	113
Diluted EPS (INR)	2.4	3.0	(19.2)	3.9	(38.2)	18.3	20.0	25.1

As a % of revenues

Direct costs	79.8	75.9		65.7		68.5	68.5	68.5
Employee cost	3.3	2.7		3.1		3.0	3.0	2.7
Other expenses	4.0	6.4		6.7		5.8	5.2	5.0
EBITDA	12.9	15.0		24.4		22.7	23.3	23.7
Reported net profit	8.2	9.2		14.4		15.9	15.7	16.5
Tax rate	31.8	55.4		28.0		24.4	28.0	28.4

Change in Estimates

	New	FY19E Old	% change	New	FY20E Old	% change	Comments
Net Revenue	14,351	16,172	(11.3)	17,210	18,416	(6.5)	
EBITDA	3,342	3,806	(12.2)	4,087	4,363	(6.3)	
EBITDA Margin	23.3	23.5		23.7	23.7		
Adjusted Profit After Tax	2,253	2,548	(11.6)	2,832	2,958	(4.3)	Building in lower order book (-18% YoY)
Net Profit Margin	15.7	15.8		16.5	16.1		
Capex	350	250	40.0	350	250	40.0	

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

Deffered 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	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	66.0	66.0
Company				
Order intake growth (%)	(17.0)	(0.5)	20.0	25.0
Revenue growth (%)	19.4	(3.1)	9.9	23.4
EBIT Margins (%)	14.6	15.4	15.6	16.0
Wind capacity (MW)	161.8	128.8	128.8	128.8
PLF (%)	23.4	22.0	22.0	22.0
Capex (INR mn)	(1,261)	4	350	350

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Income from operations	13,567	12,944	14,351	17,210
Materials costs	9,325	8,862	9,832	11,795
Employee costs	346	388	429	469
Other mfg expenses	772	753	748	860
Total operating expenses	10,442	10,003	11,009	13,124
EBITDA	3,125	2,941	3,342	4,087
Depreciation	508	424	463	479
EBIT	2,617	2,517	2,879	3,607
Less: Interest Expense	373	235	215	186
Add: Other income	492	370	441	499
Profit Before Tax	2,735	2,652	3,104	3,921
Less: Provision for Tax	837	647	869	1,114
Associate profit share	29	55	19	25
Reported Profit	1,927	2,059	2,253	2,832
Adjusted Profit	1,927	2,059	2,253	2,832
Shares o/s (mn)	113	113	113	113
Adjusted Basic EPS	17.1	18.3	20.0	25.1
Diluted shares o/s (mn)	113	113	113	113
Adj. Diluted EPS (INR)	17.1	18.3	20.0	25.1
Adjusted Cash EPS	22.8	22.0	24.1	29.4
Dividend per share (DPS)	5.1	5.0	5.0	5.0
Dividend Payout Ratio(%)	35.5	32.8	30.0	23.9

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Materials costs	68.7	68.5	68.5	68.5
Staff costs	2.5	3.0	3.0	2.7
S G & A expenses	5.7	5.8	5.2	5.0
Operating expenses	77.0	77.3	76.7	76.3
Depreciation	3.7	3.3	3.2	2.8
EBITDA margins	23.0	22.7	23.3	23.7
Interest Expense	2.8	1.8	1.5	1.1
Net Profit margins	14.2	15.9	15.7	16.5

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	23.7	(4.6)	10.9	19.9
EBITDA	41.7	(5.9)	13.6	22.3
Adjusted Profit	108.7	6.8	9.4	25.7
EPS	108.7	6.8	9.4	25.7

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	228	225	225	225	
Reserves & Surplus	10,842	12,295	13,872	16,028	
Shareholders' funds	11,070	12,520	14,097	16,253	
Long term borrowings	2,099	224	224	224	
Short term borrowings	-	23	23	23	
Total Borrowings	2,099	247	247	247	
Long Term Liabilities	213	359	359	359	
Sources of funds	14,357	14,005	15,582	17,738	
Gross Block	9,635	9,638	9,988	10,338	
Net Block	6,267	5,846	5,733	5,604	
Intangible Assets	201	201	201	201	
Total Fixed Assets	6,468	6,047	5,934	5,805	
Non current investments	789	839	1,089	1,339	
Cash and Equivalents	4,871	4,083	5,720	7,343	
Inventories	2	78	135	323	
Sundry Debtors	6,129	7,578	8,257	8,487	
Loans & Advances	33	33	38	44	
Other Current Assets	1,118	725	870	1,131	
Current Assets (ex cash)	7,282	8,415	9,300	9,985	
Trade payable	3,407	4,492	4,927	5,201	
Other Current Liab	1,646	888	1,534	1,534	
Total Current Liab	5,053	5,380	6,461	6,734	
Net Curr Assets-ex cash	2,229	3,035	2,838	3,251	
Net Deferred tax	975	879	879	879	
Uses of funds	14,357	14,005	15,582	17,738	
BVPS (INR)	98.2	111.1	125.1	144.2	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	1,927	2,059	2,253	2,832	
Add: Depreciation	508	424	463	479	
Interest (Net of Tax)	259	178	155	133	
Others	114	57	60	53	
Less: Changes in WC	(100)	45	(197)	413	
Operating cash flow	2,908	2,673	3,128	3,084	
Less: Capex	(1,261)	4	350	350	
Free Cash Flow	4,169	2,669	2,778	2,734	

Cash flow metrics		FY17	FY18	FY19E	FY20E
Year to March					
Operating cash flow		2,908	2,673	3,128	3,084
Financing cash flow		(2,928)	(2,767)	(891)	(862)
Investing cash flow		1,106	(54)	(1,600)	(1,600)
Net cash Flow		1,086	(147)	637	623
Capex		1,261	(4)	(350)	(350)
Dividend paid		(685)	(676)	(676)	(676)
Share issue/(buyback)		-	(3)	-	-

Profitability and efficiency ratios		FY17	FY18	FY19E	FY20E
Year to March					
ROACE (%)		23.4	22.3	24.5	26.6
ROAE (%)		18.9	17.5	16.9	18.7
Inventory Days		7	2	4	7
Debtors Days		149	193	201	178
Payable Days		123	163	175	157
Cash Conversion Cycle		34	32	30	28
Current Ratio		2.4	2.3	2.3	2.6
Debt/EBITDA (x)		0.7	0.1	0.1	0.1
Gross Debt/Equity		0.2	-	-	-
Adjusted Debt/Equity		0.2	-	-	-
Interest Coverage Ratio		7.0	10.7	13.4	19.4

Operating ratios		FY17	FY18	FY19E	FY20E
Year to March					
Total Asset Turnover		0.9	0.9	1.0	1.0
Fixed Asset Turnover		1.8	2.1	2.4	2.9
Equity Turnover		2.7	1.1	1.1	1.1

Valuation parameters		FY17	FY18	FY19E	FY20E
Year to March					
Adj. Diluted EPS (INR)		17.1	18.3	20.0	25.1
Y-o-Y growth (%)		108.7	6.8	9.4	25.7
Adjusted Cash EPS (INR)		22.8	22.0	24.1	29.4
Diluted P/E (x)		18.3	17.1	15.6	12.4
P/B (x)		3.2	2.8	2.5	2.2
EV / Sales (x)		2.4	2.3	2.0	1.5
EV / EBITDA (x)		10.4	10.7	8.9	6.9
Dividend Yield (%)		1.6	1.6	1.6	1.6

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	522	15.6	12.4	2.5	2.2	16.9	18.7
Kalpataru Power	1,023	17.0	13.9	2.2	1.9	13.6	14.6
KEC International	1,419	17.4	14.5	3.8	3.0	24.1	23.1
Median	-	17.0	13.9	2.5	2.2	16.9	18.7
AVERAGE	-	16.7	13.6	2.8	2.4	18.2	18.8

Source: Edelweiss research

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	VD Mohile	Independent Non-Executive Director
Ankit Saraiya	Director	Avantika Gupta	Director
Dr. Rajendra Prasad Singh	Independent Director		

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

Holding – Top10

	Perc. Holding		Perc. Holding
Varanasi commercial	21.84	Kusum industrial gas	12.95
Techno leasing & fin	12.24	Sbi funds management	6.98
Sbi mutual fund	6.28	J p financial serv p	5.87
Techno power project	5.69	Dsp blackrock invest	5.14
L&t mutual fund	3.9	L&t investment manag	3.87

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
30 Jan 2018	Gmo Emerging Domestic Opportunities Fund	Sell	1666468	385.00
30 Jan 2018	Sbi Mutual Fund	Buy	2192000	384.97

**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	BUY	SO	L	Bharat Forge	BUY	SO	M
Bharat Heavy Electricals	BUY	SP	M	CG Power and Industrial Solutions	HOLD	SP	M
Cummins India	BUY	SO	L	Engineers India Ltd	HOLD	SP	M
Greaves Cotton	HOLD	SP	M	Kalpitaru Power	BUY	SO	M
KEC International	BUY	SO	M	Larsen & Toubro	BUY	SO	M
Praj Industries	BUY	None	None	Ramkrishna Forgings	BUY	SP	M
Siemens	HOLD	SP	L	TD Power Systems	HOLD	None	None
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, TD Power Systems, Techno Electric & Engineering, Thermax, Triveni Turbine, VA Tech Wabag

Recent Research

Date	Company	Title	Price (INR)	Recos
29-May-18	Bharat Heavy Electricals	Operationally stable; visibility improving gradually ; <i>Result Update</i>	84	Buy
29-May-18	Engineers India	Ordering lags; prospects hazier; <i>Result Update</i>	136	Hold
29-May-18	VA Tech Wabag	Poor domestic visibility impacts FY18; large orders on anvil; <i>Result Update</i>	447	Buy

Distribution of Ratings / Market Cap

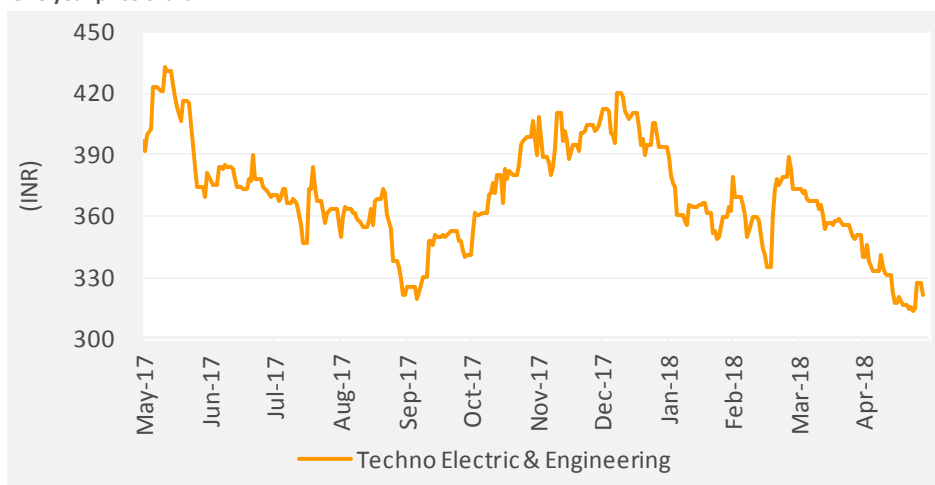
Edelweiss Research Coverage Universe

	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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