

TECHNO ELECTRIC & ENGINEERING

Pinning hopes on order intake

India Equity Research | Engineering and Capital Goods



Techno Electric & Engineering (TEEC) posted tepid Q1FY19—EPC revenue down 25% YoY—impacted by high base. Order intake remains weak and management's 20% guidance in FY19 hinges on successful closure of the USD85mn Kenya order (expected by October 2018). We do not expect Q1/Q2 numbers to have any major bearing on the stock as corporate actions are currently underway—amalgamation of TEEC into Simran, an unlisted company. Hence, TEEC has been temporarily suspended for trading (will resume by Q2FY19); TEEC has also announced a buyback of shares. Factoring near-term challenges with respect to revenue visibility, we revise down target P/E to 16x (earlier 20x), which is at a 10% discount to peers. We expect the stock to trade at about INR325 level post resumption of trading. Maintain 'BUY' with revised TP of INR350 (earlier INR405).

Revenue dips on high base; margins shine

TEEC reported 27% decline in revenue on account of base quarter adjustments and weak PLF in wind business (due to extended summers). EPC margin recuperated to 18% plus levels, following INR230mn expense booked in Q4FY18 for revenues booked in Q1FY19. Order intake remained elusive in Q1FY19. Management expects FY19 order intake at ~INR15-16bn, led by big ticket orders in Africa and domestic FGD.

New growth trajectory envisaged; buyback announced

While new growth plans are yet to be firmed up, management stated they are looking to venture into renewable/larger transmission projects/EV charging stations. TEEC has expertise of handling transmission BOOT projects (INR3-4bn size) and is comfortable to accept bigger ticket size orders. Moreover, TEEC is known to be a good churner of projects (sold Patran and wind assets). The company recently also announced buyback of shares where promoters will not participate. While the price is important (to be announced later), we believe the stock will weather a likely weaker H1FY19.

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

TEEC's working capital management, efficient execution and healthy balance sheet lend comfort to our 14% EPS CAGR over FY18-20E, but order intake remains crucial in FY19 to improve revenue visibility. We maintain 'BUY/SP'.

Financials*

(INR mn)

Year to March	Q1FY19	Q1FY18	% Chg	FY18	FY19E	FY20E
Net revenues	3,023	4,123	(26.7)	12,944	14,351	17,210
EBITDA	980	1,016	(3.6)	2,941	3,342	4,087
Adjusted Profit	665	693	(4.1)	2,059	2,253	2,832
Diluted EPS (INR)	5.9	6.2	(4.1)	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

* TEEC has reported only quarterly SA numbers, while yearly numbers are consolidated

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 264
Target Price	: INR 350
52-week range (INR)	: 427 / 231
Share in issue (mn)	: 112.7
M cap (INR bn/USD mn)	: 30 / 426
Avg. Daily Vol.BSE/NSE('000)	: 113.9

SHARE HOLDING PATTERN (%)

	Current	Q4FY18	Q3FY18
Promoters *	58.8	58.8	58.8
MF's, FI's & BK's	22.3	22.3	18.1
FII's	1.5	1.5	4.1
Others	17.5	17.5	19.0
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Capital Goods Index
1 month	(1.1)	5.7	6.0
3 months	(20.9)	6.3	(1.6)
12 months	(28.5)	13.2	(3.9)

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Q1FY19 conference call: Key highlights

Guidance

- Order inflow of INR15bn in FY19 - orders from Vedanta and NALCO are the additional ones. Orders expected in FY19 – from Kenya, state utilities, FGD and smart metering solutions.
- EBITDA margin at 18% (GST adjusted).

Wind

- Segment revenue stood lower due to slow pickup. FY19 revenue should be in line with last year.
- Renewable Energy Certificate (REC) is trading at INR1,200/MWh (20% premium to the base price of INR1,000).

EPC

- Q1FY19 EPC revenue declined ~25% on a high base due to accelerated billing of INR0.5bn post GST implementation and excise duty adjustments
- The 7% change in EBIT margin was due to GST.
- Submission of the tender to Vedanta is expected within the next 15 days. TEEC will be a partner in this project for the EPC work.
- Enquiries have been received from Suzlon, Gamesa and IPPs for the electrical BOP on the wind power plants.
- TEEC qualifies under NTPC's criteria 4 (in the EPC segment) for FGD. Focus is now on state utilities.

Financial performance

- Cash balance stood at INR5bn, as at June end.
- Order book stands at INR70.90bn.
- A USD87mn order from Kenya is expected for setting up a 220kv power network. TEEC has signed the agreement, pending certain clearances from the government of Kenya. Management expects to bag this order by Oct 2018.
- At a specific point in time, the company will focus on three-four states. Currently, Rajasthan, Uttar Pradesh, Madhya Pradesh and Andhra Pradesh are the focus states.
- From the Nagaland BOOT project revenues should start accruing from July 2020.

Buyback and share listing

- Promoters will not participate in the buyback. The buyback will be post listing of shares.
- The company shall file for listing this week. The stock is expected to start trading from September end on both exchanges.
- MAT benefit is expected for at least seven more years. However, management expects tax rate of 25% going ahead.

Table 1: SoTP valuation

Business Segments	Particulars	Amount (INR mn)	Valuation Method	Multiple (x)	Value (INR mn)	Value per share (INR)
EPC	PAT – FY20E	1,686	P/E	16	27,742	246
Energy	Book Value	4,183	P/B	1.5	6,274	56
Project	Book Value	353	P/B	1.5	529	5
Cash	Discounted with 14% COE	6,403			4,884	43
Total Fair Value						350

Source: Edelweiss research

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 five years for TEEC. We expect 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	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	7.1	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	68.0	69.0
Company				
Order intake growth (%)	(17.0)	(0.5)	20.0	25.0
Revenue growth (%)	19.4	(3.1)	9.4	20.0
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	14,142	16,534
Materials costs	9,325	8,862	9,801	11,541
Employee costs	346	388	429	469
Other mfg expenses	772	753	745	832
Total operating expenses	10,442	10,003	10,974	12,841
EBITDA	3,125	2,941	3,167	3,692
Depreciation	508	424	417	433
EBIT	2,617	2,517	2,751	3,259
Less: Interest Expense	373	235	154	129
Add: Other income	492	370	460	563
Profit Before Tax	2,735	2,652	3,057	3,694
Less: Provision for Tax	837	647	851	1,025
Associate profit share	29	55	19	25
Reported Profit	1,927	2,059	2,224	2,694
Adjusted Profit	1,927	2,059	2,224	2,694
Shares o /s (mn)	113	113	113	113
Adjusted Basic EPS	17.1	18.3	19.7	23.9
Diluted shares o/s (mn)	113	113	113	113
Adj. Diluted EPS (INR)	17.1	18.3	19.7	23.9
Adjusted Cash EPS	22.8	22.0	23.4	27.8
Dividend per share (DPS)	5.0	5.0	5.0	5.0
Dividend Payout Ratio(%)	35.1	32.8	30.4	25.1

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Materials costs	68.7	68.5	69.3	69.8
Staff costs	2.5	3.0	3.0	2.8
S G & A expenses	5.7	5.8	5.3	5.0
Operating expenses	77.0	77.3	77.6	77.7
Depreciation	3.7	3.3	2.9	2.6
Interest Expense	2.8	1.8	1.1	0.8
EBITDA margins	23.0	22.7	22.4	22.3
Net Profit margins	14.2	15.9	15.7	16.3

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	23.7	(4.6)	9.3	16.9
EBITDA	41.7	(5.9)	7.7	16.6
Adjusted Profit	108.7	6.8	8.0	21.1
EPS	108.7	6.8	8.0	21.1

Engineering and Capital Goods

Balance sheet (INR mn)				
As on 31st March	FY17	FY18	FY19E	FY20E
Share capital	228	225	225	225
Reserves & Surplus	10,842	12,295	13,843	15,862
Shareholders' funds	11,070	12,520	14,068	16,087
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	15,553	17,572
Gross Block	9,635	9,638	9,988	10,338
Net Block	6,267	5,846	5,780	5,697
Intangible Assets	201	201	201	201
Total Fixed Assets	6,468	6,047	5,981	5,898
Non current investments	789	839	1,089	1,339
Cash and Equivalents	4,871	4,083	5,750	6,403
Inventories	2	78	134	316
Sundry Debtors	6,129	7,578	8,136	9,060
Loans & Advances	33	33	38	44
Other Current Assets	1,118	725	870	1,131
Current Assets (ex cash)	7,282	8,415	9,179	10,551
Trade payable	3,407	4,492	4,911	5,085
Other Current Liab	1,646	888	1,534	1,534
Total Current Liab	5,053	5,380	6,445	6,618
Net Curr Assets-ex cash	2,229	3,035	2,734	3,933
Net Deferred tax	975	879	879	879
Uses of funds	14,357	14,005	15,553	17,572
BVPS (INR)	98.2	111.1	124.9	142.8

Free cash flow (INR mn)				
Year to March	FY17	FY18	FY19E	FY20E
Reported Profit	1,927	2,059	2,224	2,694
Add: Depreciation	508	424	417	433
Interest (Net of Tax)	259	178	111	93
Others	114	57	43	36
Less: Changes in WC	(100)	45	(302)	1,199
Operating cash flow	2,908	2,673	3,096	2,057
Less: Capex	(1,261)	4	350	350
Free Cash Flow	4,169	2,669	2,746	1,707

Cash flow metrics				
Year to March	FY17	FY18	FY19E	FY20E
Operating cash flow	2,908	2,673	3,096	2,057
Financing cash flow	(2,919)	(2,767)	(830)	(804)
Investing cash flow	1,106	(54)	(1,600)	(1,600)
Net cash Flow	1,095	(147)	667	(347)
Capex	1,261	(4)	(350)	(350)
Dividend paid	(676)	(676)	(676)	(676)
Share issue/(buyback)	-	(3)	-	-

Profitability and efficiency ratios				
Year to March	FY17	FY18	FY19E	FY20E
ROAE (%)	18.9	17.5	16.7	17.9
ROACE (%)	23.4	22.3	23.7	24.9
Inventory Days	7	2	4	7
Debtors Days	149	193	203	190
Payable Days	123	163	175	158
Cash Conversion Cycle	34	32	32	39
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	17.9	25.3

Operating ratios				
Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	0.9	0.9	1.0	1.0
Fixed Asset Turnover	1.8	2.1	2.4	2.8
Equity Turnover	2.7	1.1	1.1	1.1

Valuation parameters				
Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	17.1	18.3	19.7	23.9
Y-o-Y growth (%)	108.7	6.8	8.0	21.1
Adjusted Cash EPS (INR)	22.8	22.0	23.4	27.8
Diluted P/E (x)	15.4	14.4	13.4	11.0
P/B (x)	2.7	2.4	2.1	1.8
EV / Sales (x)	2.3	2.3	1.9	1.6
EV / EBITDA (x)	8.6	8.8	7.6	6.4
Dividend Yield (%)	1.9	1.9	1.9	1.9

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	426	13.4	11.0	2.1	1.8	16.7	17.9
Kalpataru Power	789	14.3	11.8	1.8	1.6	13.1	14.1
KEC International	1,111	14.3	12.1	3.1	2.5	24.1	22.8
Median	-	14.3	11.8	2.1	1.8	16.7	17.9
AVERAGE	-	14.0	11.6	2.3	2.0	18.0	18.3

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	8.12
Sbi mutual fund	6.28	Techno power project	5.69
Dsp blackrock invest	5.04	J p financial serv p	4.89
L&t investment manag	3.87	L&t mutual fund	3.66

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
07 Aug 2018	Ecap Equities Ltd	Buy	4000000	281.14
07 Aug 2018	J.P.Financial Services Pvt Ltd	Sell	3999800	281.14
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	Kalpataru 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
13-Aug-18	CG Power & Industrial Solutions	Core steady; debt management key; <i>Result Update</i>	61	Hold
13-Aug-18	Cummins India	Exports keep Q1 in line; drivers falling in place; <i>Result Update</i>	653	Buy
10-Aug-18	Voltas	Better Q1 despite challenges; all eyes on VoltBek launch; <i>Result Update</i>	621	Buy

Distribution of Ratings / Market Cap

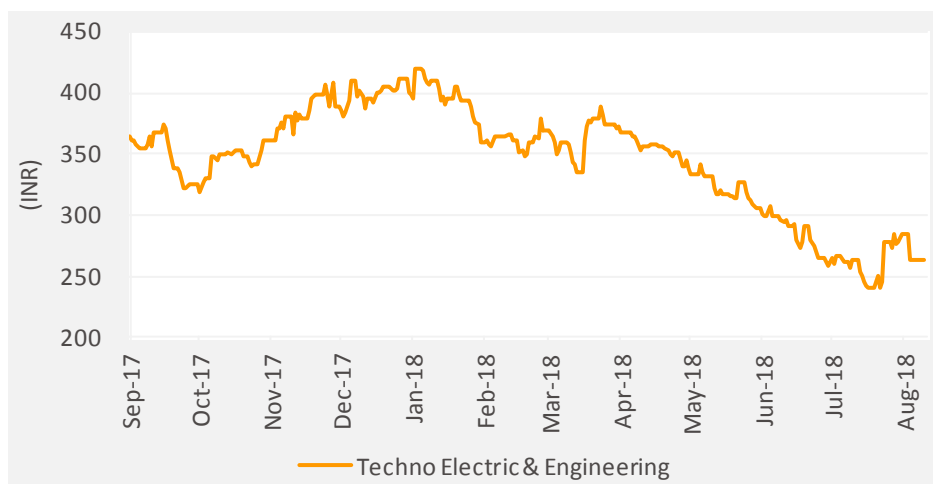
Edelweiss Research Coverage Universe

	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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