

TECHNO ELECTRIC AND ENGINEERING COMPANY LTD

31 January 2018

Initiating Coverage (BUY)

CMP

INR 370

Target Price

INR 444

Stock Details

Industry	Heavy Electrical Equipment
Bloomberg Code	TEEC:IN
BSE Code	533281
Face Value (Rs.)	2.00
Market Cap. (Rs. mn)	42,029.6
52wk. Low/High (Adjusted) (Rs.)	314.50/438.95

Shareholding Pattern Dec '17

Promoter (%)	58.75
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	41.25
No. of Share Outstanding (mn)	112.68

Valuation Summary

	FY 16A	FY 17A	FY 18P	FY 19P
P/E (x)*	10.87	21.89	21.00	19.00
EV/EBITDA (x)	6.90	11.85	11.28	10.49
P/BV (x)	1.57	3.77	3.53	3.44

*TTM for Current Year

 Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

Rs. Mn	FY 16A	FY 17A	FY 18P	FY 19P
Net Sales	10,972	13,567	15,060	16,566
EBITDA	2,832	3,617	3,963	4,703
Net Profit	1405	1927	2091	2631
EPS (Rs.)*	24.6	16.9	18.6	23.4

*Un adjusted

Key Ratios

	FY 16A	FY 17A	FY 18P	FY 19P
EBITDA Margin (%)	24.4	25.7	25.3	27.3
EBIT Margin (%)	20.1	22.1	22.4	22.4
Net Pro. Margin (%)	12.1	13.7	13.4	15.3
Debt/Equity (x)	0.30	0.19	0.17	0.14
RoNW (%)	14.6	18.2	17.8	19.5
RoCE (%)	10.5	13.8	13.7	15.5

One Year Price / Volume



We recommend 'BUY' on TECHNO ELECTRIC & ENGINEERING for a target of INR 444 - valuing the company at P/E 19x of FY19E Earning.

INVESTMENT RATIONALE:

- **Rich experience:** Rich experience of more than three decades in India's challenging EPC space.
- **Timeline driven:** Demonstrated their capability by delivering projects across shrinking timelines that have now become industry benchmarks in terms of project completion.
- **Pan-India presence:** Successfully executed over 340 pan-India projects;
- **Committed to compliance:** Our quality commitment is accredited with ISO 9001:2008, ISO 14001:2004 and BS OHSAS 18001:2007. This ensures unmatched quality commitment, environmental management and employee safety.
- **Asset-light model:** Asset-light, lean organization structure has helped to control their overhead structure has enabled them to have a margin advantage over their peers.
- **Best-in-class technology:** Our business model gives us the flexibility to partner with the best vendors from around the world.
- **Awards and recognition:** Our credibility has been recognised and awarded by several institutions over the years.

VALUATIONS AND VIEW:

Techno is one of the leading players in the country's power-infrastructure space. Techno is engaged in three business types – EPC, Asset Ownership, and Operations & Maintenance. Company has grown business to include Green Power, and Build Own Operate and Transfer (BOOT) and Build Own Operate and Maintain (BOOM) project segments as well. **We value the business at 19x FY19E EPS and recommend a BUY rating on the stock with a target price of INR 444 per share.**

RISK & CONCERNS:

- **Industry Risk:** Slowdown in the industry could impact the company's business sustainability.
- **Liquidity Risk:** Any delay in receivables could affect the company's viability.
- **Segment Risk:** Presence in a single business segment may hamper the growth of the Company.
- **Timebound completion Risk:** Any delay in the completion of project could affect the Company's profitability.
- **Working capital Risk:** Working capital requirement may increase in an event of delayed payments by clients
- **Price-based competition Risk:** Inability to remain cost-competitive could mean the Company losing out on contracts to its sectoral peers.

COMPANY BACKGROUND:

Established in 1963, Techno Electric & Engineering Company (Techno) is one of the leading players in the country's power-infrastructure space. At Techno, we are engaged in three business types – EPC, Asset Ownership, and Operations & Maintenance. As a prominent engineering, procurement and construction (EPC) company in India's power sector, we provide services to all three industry segments - generation, transmission and distribution. We have grown our business to include Green Power, and Build Own Operate and Transfer (BOOT) and Build Own Operate and Maintain (BOOM) project segments as well.

Techno provides complete solutions for captive power plants, balance of plant (BOP) for thermal and hydro power projects. The Company extended into the captive waste heat recovery segment in 2006 through the delivery of integrated turnkey solutions. Techno's capabilities comprise basic engineering, design, detailed engineering, civil cum structural works, commissioning and stabilization. Over the decades, the Company has established a formidable record in the execution of up to 100 MW captive projects in record time. Techno has demonstrated its excellence in the transmission and distribution segment. Within the EHV substation segment, Techno services comprise the EPC delivery of air-insulated and gas insulated substations (GIS).

INDUSTRY OVERVIEW:

Every industry around the world have been transformed by technological innovation within the last couple of decades. At last, innovation in the power sector is finally taking place as well. To bring clean, affordable electricity to all of its citizens, India has announced an impressive goal to add 60GW of medium and large scale grid connected solar projects and 40GW of rooftop solar by 2022. Adding clean energy will drastically change the lives of India's citizens while simultaneously working to fulfil its international commitments to combat climate change.

Achieving nationwide electrification will be no easy feat, no matter whether it is through either source of energy. It will require bringing electricity to about 240 million people, many of which live in rural villages where nearly half of households lack access to electricity. Utilities typically cannot afford to buy more expensive power generation when demand is high, which leads to regular blackouts. India has an enormous opportunity to leapfrog the largescale, centralised power system paradigm that dominated the 20th century, and instead settle into a model of small-scale, distributed power systems that are cleaner, more affordable, and more reliable at once.

PEER COMPARISON

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Siemens	1,288	61.0	45,870.1	0.54	NaN	NaN	NaN	NaN	5.96
Suzlon Energy	166	20.3	7,793.5	-	68.1	(258.31)	1,193.1	(56.49)	5.24
B H E L	102	74.0	37,411.6	1.03	115.4	5.89	6,384.9	(3.28)	1.15
A B B	1,622	84.4	34,367.3	0.25	83.4	18.17	1,915.4	(6.80)	9.73
K E C Intl.	353	25.1	9,063.7	0.45	89.4	37.41	2,132.2	2.80	5.21
Kalpataru Power	462	24.6	7,089.9	0.43	71.5	23.66	1,222.8	9.63	2.71
Techno Elec.	370.0	21.0	4,169.2	-	60.1	(14.49)	254.2	(30.85)	3.77

*TTM

FINANCIAL OVERVIEW

Q4 FY17 Performance Highlight

(in Million)	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	YoY (%)	QoQ (%)
Revenue	3,095.56	3,311.01	3,573.88	3,681.14	2,014.02	-34.94%	-45.29%
Other Income	123.48	3.64	277.66	66.56	41.51		
Total Income	3,219.04	3,314.65	3,851.53	3,747.70	2,055.53	-36.14%	-45.15%
Expenditure	-2,519.75	-2,772.42	-3,104.56	-3,097.71	-1,765.09		
As a % of Sales	81.40%	83.73%	86.87%	84.15%	87.64%		
Interest	-54.81	-31.44	-35.03	-26.64	-24.59	-55.14%	-7.70%
PBDT	644.49	510.79	746.98	649.99	290.44		
As a % of Sales	20.82%	15.43%	20.90%	17.66%	14.42%		
Depreciation	-40.57	-40.42	-9.22	-6.46	-7.11		
PBT	603.92	470.37	737.76	643.53	283.33	-53.08%	-55.97%
As a % of Sales	19.51%	14.21%	20.64%	17.48%	14.07%		
Tax	-154.49	-158.01	-310.28	-220.83	-103.82	-32.80%	-52.99%
Net Profit	449.43	312.36	427.47	422.7	179.51	-60.06%	-57.53%
As a % of Sales	14.52%	9.43%	11.96%	11.48%	8.91%		
Equity	228.36	228.36	228.36	225.36	225.36	-1.31%	0.00%
EPS (Rs)	3.92	2.73	3.78	3.75	1.58	-59.69%	-57.87%
CEPS (Rs)	4.29	3.09	3.82	3.81	1.66		
OPM %	22.59	16.38	20.9	17.66	14.42		
NPM %	14.52	9.43	11.96	11.48	8.91		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Net Sales	7,085	7,939	10,972	13,567	15,060	16,566	18,553
Other Operating Income	120	202	629	492	602	659	804
Expenditure	5,160	5,859	8,769	10,442	11,699	12,521	14,030
EBITDA	2,045	2,283	2,832	3,617	3,963	4,703	5,327
Depreciation	667	603	495	508	456	457	459
EBIT	1,379	1,679	2,337	3,109	3,507	4,246	4,868
Interest Expenses	454	431	443	373	507	508	598
PBT	924	1,248	1,894	2,735	3,000	3,738	4,270
Tax	38	185	487	837	908	1,107	1,250
Other Income	-	-	-	-	-	-	-
Extraordinary Items	-	-	-	-	-	-	-
Net Income Before Adjustment	887	1,063	1,407	1,899	2,092	2,631	3,020
Minority Int./Income from Assoc.	12	12	2	(29)	-	-	-
Adjusted PAT	875	1,051	1,406	1,927	2,092	2,631	3,020

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Equity share capita	114	114	114	228	228	228	228
Reserves & surplus	8,257	9,033	10,031	10,842	12,209	14,306	16,712
Share Warrants	-	-	-	-	-	-	-
Net worth	8,371	9,147	10,145	11,070	12,437	14,534	16,941
Minority Interest	193	199	-	-	-	33	8
Loan Funds	4,785	3,967	3,068	2,099	2,101	2,099	2,097
Net deferred tax liability	9	7	8	1,161	1,161	1,161	1,161
Other Long-term Liabilities	500	166	83	195	217	238	267
Long-term Provisions	14	19	15	17	19	21	24
Total Liabilities	13,872	13,506	13,320	14,546	15,937	18,090	20,500
Net block	10,729	10,247	8,246	6,673	6,268	5,862	5,460
Investment, Loan & Adv.	681	747	794	841	1,060	1,337	1,688
Total Current Assets	5,088	5,820	9,497	11,549	13,100	15,712	18,731
Current Liabilities & Provisions	2,626	3,310	5,218	4,520	4,492	4,822	5,381
Net Current Assets	2,462	2,511	4,279	7,029	8,608	10,890	13,351
Total Assets	13,872	13,506	13,320	14,546	15,938	18,090	20,501

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 17A	FY 18E	FY 19P	FY 20P
Operating Cash Flow	3,893	1,450	2,763	3,057
Cash Flow from Investments	(1,852)	(269)	(327)	(409)
Cash Flow from Financing	(2,132)	(760)	(1,000)	(1,182)
Net Changes in Cash	(91)	421	1,436	1,467
Opening Cash	1,010	919	1,340	2,776
Closing Cash Balance	919	1,340	2,776	4,243

Research Analyst Details

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