

Result Update

21 November 2016

Power-packed performance

We retain Buy rating on Techno Electric (TEEC) and our TP of Rs445. EBITDA earnings bounced YoY owing to higher EPC execution and PBIT margin of 15.2% coupled with higher PLF from wind segment. The outlook appears robust, with a ~Rs26bn order book, having +Rs10bn of order bid pipeline and margin guidance slightly ahead of estimates. The wind business performance was weak in FY16, but a sharp pick-up in PLF in 1HFY17 so far, favourable HC verdict and an average tariff increase of 15-20% will lead to strong performance in FY17. The guidance to monetise the balance wind asset entailing an EV of about Rs7.9bn is intact and has the potential to unfold shareholder value in the long term. Additionally, our inference of average RoE of 35% on EPC segment and average RoCE of 86% for the forecast period, debt-free EPC business, FCF yield of 5% in FY18E, and low D:E of 0.4x in FY18E make it a compelling investment bet.

- EPC business – powering growth:** TEEC reported a strong revenue execution at ~Rs3bn (+47% YoY and +28% QoQ); and was complimented with PBIT of Rs452mn (+41% YoY and +35% QoQ) was very strong owing to strong execution. The PBIT margin was buoyant at 15.2% vs 14.5% in Q1FY17. The order intake was near zero and stood at Rs26bn and Management has guided for a strong order intake of +Rs12-15bn in 2HFY17; hence, traction in order book will provide firm revenue and margin visibility beyond FY18E. TEEC's asset-light approach, project expertise of more than three decades, ability to bag high-margin orders despite fierce competition, timely and seamless execution, focus on cash generation, low gearing, ability to optimise on fixed costs and consequent consistent delivery of best-in-class EBITDA, RoE and RoCE make its business model unparalleled in the industry.
- Wind business – Exceptionally strong:** The wind business remained very strong with PBIT at Rs534mn (+38.7% YoY). We infer an average PLF at nearly 43% vs 34% in Q2FY16, which coupled with ~8% YoY increase in unit realisation, led to earnings growth. The unit realisation was higher owing to 32% increase in CER/REC/GBI benefits at Rs0.2bn. Although the favourable HC order on tariff is received, the same will accounted once the tariffs are adopted by TNERC and it is indicated to have a blended 15-20% tariff hike and a potent additional tariff arrears and surcharge revenue of Rs0.5bn, which has not been factored-in. We believe the company will plan to exit wind business possibly in FY18E and currently at 1x EV, TEEC has the potential to realise about Rs7.9bn, which we have not factored in. (Refer to our Flash note dated 14 May 2015 on impact analysis post part sale of 45MW)
- Outlook and what-if scenario:** Management is confident of the potential to expand the EPC segment as a result of capex revival, led by PGCIL and SEBs, with strong visibility of traction in order book. With a healthy order book of Rs26bn (including L1 order) which creates firm revenue visibility extending beyond two years, we believe the Management's philosophy of attaching significance to margins, leverage and cash flow rather than just order intake will remain intact. EBITDA margin guidance is maintained at 14-15% over the next few years vs 14.5% factored in, providing an upside potential. Our what-if scenario on potential complete stake sale from wind asset (163 MW) reveals that an EV/MW of Rs56mn (average cost of acquisition) can potentially add Rs12 to our current TP of Rs445.
- Valuation and risks:** Our TP of Rs445 is based on SoTP of Mar'18E, derived by assigning PE(x) of 22.5x its EPC earnings, P/B(x) to wind asset, cash and investments and DCFE-based valuation to BOOT/BOOM projects. TEEC's superior earnings, lower PEG(x) and FCF yield of 4% cap the downside. Key downside risks are (1) slowdown in EPC order book and (2) lower PLF and earnings in wind assets.

Y/E Mar – Consol. (Rsmn)	Q2FY17	Q2FY16	YoY (%)	Q1FY17	QoQ (%)	Q2FY17E	Var (%)
Net sales	3,621	2,489	45.5	2,678	35.2	2,995	20.9
EBITDA	1,115	827	34.9	712	56.7	946	18.0
RPAT	704	467	50.8	480	46.8	584	20.7
Operating Metrics							
EPC – PBIT	452	322	40.5	335	34.7	332	36.1
Wind PBIT	534	385	38.7	239	123.2	460	16.1

Source: Company, Centrum Research

Target Price	Rs445	Key Data			
CMP*	Rs292	Bloomberg Code TEEC IN			
Upside	52.5%	Curr Shares O/S (mn) 114.2			
Previous Target	Rs445	Diluted Shares O/S(mn) 114.2			
Previous Rating	Buy	Mkt Cap (Rsbn/USDmn) 33.3/494.1			
Price Performance (%)*	52 Wk H / L (Rs)	361.5/209.1			
1M	6M	1Yr			
TEEC IN	(3.2)	14.4	8.8	5 Year H / L (Rs)	361.5/34.5
NIFTY	(8.8)	2.3	0.9	Daily Vol. (3M NSE Avg.)	58205

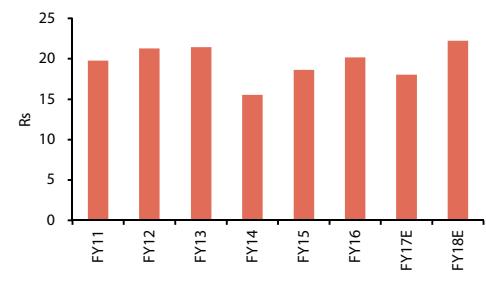
*as on 21 November 2016; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Sep-16	Jun-16	Mar-16	Dec-15
Promoter	58.0	58.0	58.0	58.0
FII	9.2	7.9	6.4	11.9
Dom. Inst.	16.5	17.7	17.3	17.4
Public & Others	16.3	16.4	18.3	12.7

Source: BSE, *as on 21 November 2016

Trend in Adj. EPS



Source: Company, Centrum Research

Centrum vs. Bloomberg Consensus*

Particulars (Rsmn)	FY17E			FY18E		
	Centrum	BBG	Chg (%)	Centrum	BBG	Chg (%)
Revenue	14,434	14,247	1.3	18,516	17,477	5.9
EBITDA	3,187	3,073	3.7	3,664	3,534	3.7
RPAT	2,057	1,909	7.8	2,537	2,376	6.8
Bloomberg Consensus				Centrum Target Price (Rs)	Variance (%)	
BUY	SELL	HOLD	Target Price (Rs)	445	13.7	
11	0	2	391			

*as on 21 November 2016; Source: Bloomberg, Centrum Research Estimates

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Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	APAT	YoY (%)	Adj.DEPSRs.	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY14	7,085	1.2	1,925	27.6	887	(27.6)	7.8	11.0	8.3	37.6	19.2
FY15	7,939	12.1	2,080	26.5	1,063	19.9	9.3	12.1	8.5	31.4	18.0
FY16	10,972	38.2	2,122	19.4	1,152	8.4	10.1	11.9	7.6	28.9	16.9
FY17E	14,434	31.5	3,187	22.2	2,057	78.6	18.0	18.8	13.0	16.2	10.6
FY18E	18,516	28.3	3,664	19.9	2,537	23.3	22.2	20.0	14.0	13.1	8.9

Source: Company, Centrum Research Estimates

In the interest of timeliness, this document is not edited.

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Valuation and View

We have arrived at a TP of Rs445 (post bonus) using SoTP valuation based on Mar'18E. We have valued the EPC business by assigning a fair PE(x), and valued wind business at 1x equity, cash and liquid investments at 1x book value, and BOOT & BOOM projects at DCFE.

Exhibit 1: SoTP Valuation

Methodology	Fair Multiple assigned to Mar-18E	Fair price (Rs)	Valuation Base
PE (x) to EPC's EPS	22.5	364	Applied a PE(x) of 22.5x based on average RoE of 35% over FY17-18E, CoE of 10.6% and terminal growth rate of 7%
P/B(x) to equity invested in wind assets	1	29	P/B of 1x equity
DCF-E at 13% to Jhajjar KT (49% share)		5.6	Risk-free rate at 7.3%, beta at 1, zero terminal value in FY37E
DCF-E at 13% to Patran (49% share)		2.3	Risk-free rate at 7.3%, beta at 1, zero terminal value in FY51E
Cash and Investments		42	At 1x Mar-18E BV
Fair price (rounded-off)		445	

Source: Company, Bloomberg, Centrum Research Estimates

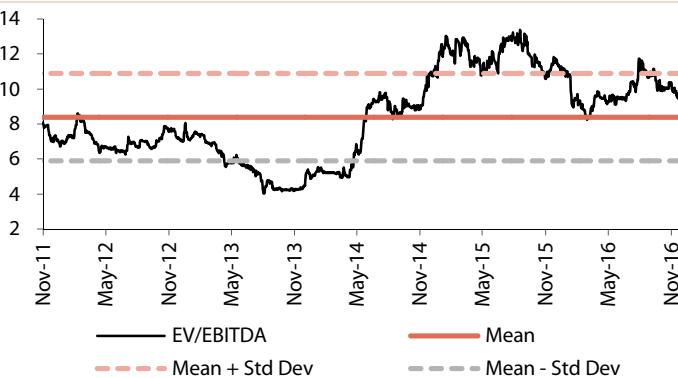
Techno Electric has been facing stiff competition in solar EPC tender and hence remains cautious and guides for no tender award in the near term. It is also awaiting outcome from bidding participation in some upcoming BOOT/BOOM projects in JV with Kalpataru Power (Not Rated) that have a ticket size of Rs11bn and wherein Techno Electric share will be limited to 26%. Additionally, Management clarified that the average ticket order size has increased from Rs1 to Rs2.5bn range to Rs2.5 to Rs5bn range and hence remains confident of order intake of +Rs12-Rs15bn in 2HFY17 which is seasonally stronger as well. The company continues to have Rs1.2bn of outstanding receivable as inter-company transaction from Patran, but has made payments of Rs0.8bn and hence the momentary mismatch on working capital cycle. The Management has guided for the Patran receivables to be recovered in Q3FY17 and hence not a concern.

Exhibit 2: Sensitivity Analysis to FY17E

Sensitivity to key variables	(%)Change	% impact on EBITDA	% impact on EPS
Increase in EPC revenue	5	2.9	3.6
Increase in wind revenue	5	2.1	2.5

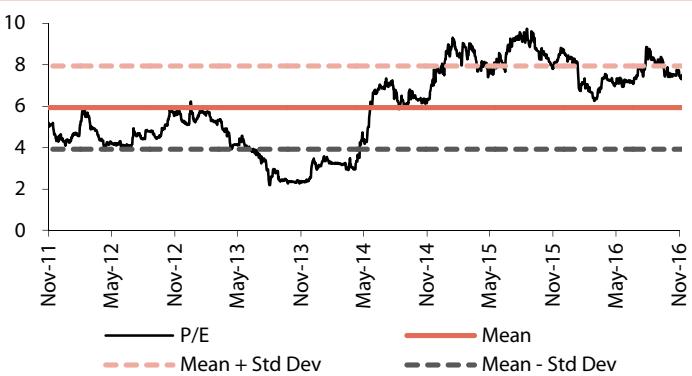
Source: Company, Centrum Research Estimates

Exhibit 3: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 4: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 5: Comparative Valuations

Company	Mkt. Cap (Rsmn)			CAGR FY16-FY18E (%)			EBITDA Margin (%)			P/E (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)			
	Rev.	EBITDA	PAT	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	
Techno Electric	33,318	29.9	31.4	48.4	19.4	22.2	19.9	28.9	16.2	13.1	16.9	10.6	8.9	11.9	18.8	20.0	1.7	1.2	1.5			
KEC International*	35,915	6.3	19.2	23.7	8.0	8.4	8.5	18.8	14.1	11.7	8.1	7.5	6.6	13.5	15.7	16.4	0.8	1.0	1.1			
Gayatri Projects*	21,414	16.4	32.9	72.8	21.8	14.8	15.0	1725.9	28.7	19.4	17.3	DNA	DNA	0.2	9.5	11.6	0.4	DNA	DNA			
Kalpataru Power Trans*	35,741	11.6	4.9	23.3	16.6	10.6	10.6	30.5	13.7	11.5	5.3	7.3	6.3	5.2	11.0	11.8	0.7	0.9	1.0			
BHEL*	3,15,496	5.8	(7.3)	3.4	(7.5)	2.7	5.7	(35.2)	42.5	19.7	24.3	9.4	(2.7)	2.3	4.8	0.4	0.7	1.3				
Larsen & Toubro*	12,56,254	12.0	10.3	11.2	12.4	11.7	12.2	24.6	23.6	19.2	16.3	17.6	15.2	12.0	11.4	12.8	1.5	1.4	1.5			
GET T&D India Ltd	85,238	6.3	8.9	21.4	7.9	7.0	10.1	109.9	111.0	39.6	43.4	DNA	DNA	5.9	9.6	16.6	0.4	0.7	0.8			
Siemens#	3,84,948	9.4	15.9	(3.0)	9.9	11.2	11.8	56.2	44.2	35.9	33.1	26.6	22.1	11.7	13.3	15.1	2.0	0.8	0.9			
Reliance Infra*	1,18,306	5.1	(176.8)	1.8	36.1	17.1	17.0	6.0	7.6	7.3	8.1	DNA	DNA	7.2	6.9	6.8	1.6	2.5	2.6			
Lancolnfratech*	9,623	17.9	17.2	(22.1)	29.1	22.0	23.1	(3.4)	(0.8)	(0.9)	19.3	DNA	DNA	DNA	81.9	43.6	DNA	DNA	DNA			
ABB India*	2,22,419	9.8	17.4	31.7	9.3	8.6	9.6	74.2	59.2	42.6	31.7	29.1	22.5	10.3	11.8	14.7	0.3	0.4	0.6			

Source: *Bloomberg, Centrum Research Estimates; NA: Details are not available, # as on YE Sep15, DNA: Details not available

Quarterly financials, Operating metrics and Key performance indicators

Exhibit 6: Quarterly Financials - Consolidated

Particulars (Rsmn)	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17
Net Sales	1,800	2,209	1,999	2,489	3,164	3,258	2,678	3,621
Consumption of raw material	1,139	1,634	1,375	1,438	2,549	2,770	1,475	2,170
Other Expenses	140	137	161	143	178	222	174	192
Total Operating expenses	1,417	1,822	1,565	1,704	2,797	2,754	1,998	2,561
EBITDA	397	389	450	827	370	506	712	1,115
Depreciation	172	85	119	118	117	140	133	133
Interest	106	98	89	95	88	110	97	121
Other Income	38	74	46	63	171	94	82	56
PBT	157	280	288	677	336	350	565	918
Tax (including deferred tax)	32	72	158	207	45	76	84	200
RPAT (after minority interest)	123	227	377	467	277	284	480	704
YoY Growth (%)								
Net Sales	23.4	0.3	10.7	22.1	75.8	47.5	34.0	45.5
EBITDA	1.0	41.5	(14.9)	7.9	(6.9)	29.9	58.2	34.9
PAT	(64.6)	NM	59.1	(2.1)	125.0	26.8	27.2	53.4
Margins (%)								
EBITDA	22.0	17.6	22.5	33.2	11.7	15.5	26.6	30.8
APAT	7.0	9.4	6.5	18.9	9.2	8.4	17.9	19.8
Segment Revenue								
EPC	1,582	2,167	1,779	2,017	3,128	3,218	2,311	2,968
Wind	220	40	235	514	39	41	399	708
Corporate	50	79	46	63	171	94	82	56
Segment PBIT								
EPC	199	347	229	322	327	548	335	452
Wind	11	(31)	349	385	(87)	(109)	239	534
Corporate	50	79	46	63	171	94	82	44
Segment PBIT Margins (%)								
EPC	12.6	16.0	12.9	15.9	10.4	17.0	14.5	15.2
Wind	5.2	(77.4)	148.2	74.9	(226.0)	(263.6)	60.0	75.4
Corporate	100.0	100.0	100.0	100.0	100.0	100.0	100.0	78.7

Source: Company, Centrum Research

Exhibit 7: Key Performance Indicators

Key Variable	FY14	FY15	FY16	FY17E	FY18E
EPC EBITDA Margin (%)	10.5	13.8	14.3	14.5	14.5
Wind PLF (%)	20	17	13	20	18

Source: Company, Centrum Research Estimate

Financials (Consolidated)

Exhibit 8: Income Statement

Y/E March (Rsmn)	FY14	FY15	FY16	FY17E	FY18E
REVENUES	7,085	7,939	10,972	14,434	18,516
COGS	4,260	5,022	7,816	9,749	13,358
% of revenues	60.1	63.3	71.2	67.5	72.1
Operating expenses	609	563	733	1,151	1,060
% of revenues	8.6	7.1	6.7	8.0	5.7
Employee Costs	290	274	302	347	433
% of revenues	4.1	3.4	2.7	2.4	2.3
EBITDA	1,925	2,080	2,122	3,187	3,664
EBITDA Margin (%)	27.6	26.5	19.4	22.2	19.9
Depreciation & Amortisation	667	603	495	522	523
EBIT	1,259	1,477	1,627	2,665	3,141
Interest expenses	454	431	361	415	360
Other Income	120	202	629	496	478
PBT (excluding excp. Items)	924	1,248	1,894	2,746	3,259
Provision for tax	38	185	487	549	652
Effective tax rate (%)	4	15	26	20	20
Net Profit	887	1,063	1,407	2,197	2,608
Less: Min. int.(Jhajjar+Simran)	12	13	(2)	(139)	(70)
Rep. PAT	875	1,050	1,406	2,057	2,537
Exceptional item	-	-	254	-	-
Adj. PAT after excp.	887	1,063	1,152	2,057	2,537

Source: Company, Centrum Research Estimates

Exhibit 9: Key Ratios

Y/E March	FY14	FY15	FY16	FY17E	FY18E
Growth Ratio (%)					
Revenues	1.2	12.1	38.2	31.5	28.3
EBITDA	(17.9)	8.0	2.0	50.2	15.0
Adj. Profit	(27.6)	19.9	8.4	78.6	23.3
Profitability Ratio (%)					
EBITDA Margin	27.6	26.5	19.4	22.2	19.9
PBIT Margin	18.0	18.8	14.9	18.6	17.1
PBT Margin	13.3	15.9	15.0	19.2	17.7
PAT Margin	12.7	13.5	10.6	14.4	13.8
Return Ratio (%)					
ROE	11.0	12.1	11.9	18.8	20.0
ROCE	8.3	8.5	7.6	13.0	14.0
ROIC	9.8	9.5	9.2	19.4	20.1
Turnover Ratio (days)					
Inventory period	6.2	2.9	12.7	7.3	7.3
Debtors period	107.8	160.3	166.0	140.4	140.1
Creditors period	55.8	63.5	96.2	94.9	94.9
Net working capital (ex.cash)	82.2	146.9	146.1	103.0	103.7
Solvency Ratio (x)					
Debt-equity	0.7	0.6	0.5	0.5	0.4
Net debt-equity	0.4	0.4	0.2	0.0	(0.0)
Current Ratio	2.1	2.9	2.7	2.4	2.2
Interest coverage	3.0	3.9	6.2	7.6	10.1
Dividend					
Dividend per share	3.0	4.0	5.0	3.5	4.5
Dividend payout ratio (%)	19.3	21.8	24.8	19.4	20.2
Dividend yield (%)	1.0	1.4	1.7	1.2	1.5
Per share (Rs)					
Basic EPS	7.8	9.3	10.1	18.0	22.2
Fully diluted EPS - Adjusted	7.8	9.3	10.1	18.0	22.2
Fully diluted EPS - Reported	7.8	9.3	12.3	18.0	22.2
CEPS	13.5	14.5	14.4	22.6	26.8
Book value	73.3	80.1	88.8	102.7	119.5
Valuation (x)					
P/E - Adjusted	37.6	31.4	28.9	16.2	13.1
P/BV	4.0	3.6	3.3	2.8	2.4
EV/EBITDA	19.2	18.0	16.9	10.6	8.9
EV/Sales	5.3	4.8	3.3	2.3	1.8
Mcap/Sales	4.8	4.2	3.1	2.3	1.8

Source: Company, Centrum Research Estimates

Exhibit 10: Balance Sheet

Y/E March (Rsmn)	FY14	FY15	FY16	FY17E	FY18E
Equity Share Capital	114	114	114	228	228
Share Ap. Money Pend. Allot.	-	-	-	-	-
Reserves	8,257	9,033	10,031	11,494	13,415
Shareholders' fund	8,371	9,147	10,145	11,723	13,644
Debt	6,077	5,649	5,122	5,710	4,857
Deferred Tax/non current Liability	202	206	8	-	-
Total Capital Employed	14,650	15,003	15,275	17,433	18,501
Gross fixed assets	13,404	13,492	11,106	11,406	11,706
Accumulated depreciation	(2,711)	(3,283)	(2,861)	(3,382)	(3,906)
CWIP	36	38	-	-	-
Net Fixed Assets	10,729	10,247	8,246	8,024	7,800
Investments	1,870	1,347	1,547	3,662	4,198
Inventories	118	63	379	286	368
Sundry Debtors	2,060	3,449	4,963	5,510	7,067
Cash & bank balances	481	247	1,116	1,707	1,271
Loans and advances	1,240	1,461	2,286	2,398	3,133
Other current assets	-	-	-	-	-
Total current assets	3,899	5,220	8,744	9,901	11,840
Creditors	1,067	1,367	2,875	3,724	4,786
Other Current liabilities & prov.	782	445	387	430	552
Net current assets	2,051	3,408	5,482	5,747	6,502
Deferred Tax Asset/Others	-	-	-	-	-
Total Assets	14,650	15,002	15,275	17,433	18,501

Source: Company, Centrum Research Estimates

Exhibit 11: Cash Flow

Y/E March (Rsmn)	FY14	FY15	FY16	FY17E	FY18E
PBT	924	1,248	1,640	2,746	3,259
Total tax paid	(48)	(172)	(497)	(569)	(652)
Depreciation	667	603	495	522	523
Chg in debtors	1,000	(1,389)	(1,513)	(547)	(1,557)
Chg in inventory	(102)	56	(317)	93	(82)
Chg in loans & advances	217	(221)	(826)	(112)	(736)
Change in other current assets	-	-	-	-	-
Chg in creditors	(5)	301	1,508	849	1,061
Chg in other current liabilities	(332)	(430)	(84)	224	122
Change in other non-current liabilities	1	5	6	(31)	-
Net chg in working capital	780	(1,679)	(1,226)	476	(1,191)
CF from op. activities (a)	2,322	1	412	3,175	1,940
Capital expenditure	(359)	(91)	2,424	(300)	(300)
Chg in investments	(1,224)	522	(199)	(2,115)	(536)
CF from invest. activities (b)	(1,583)	432	2,225	(2,415)	(836)
Debt raised/(repaid)	(600)	(427)	(527)	588	(853)
Dividend (incl. tax)	(370)	(200)	(312)	(617)	(617)
Others	(7)	(39)	(929)	(139)	(71)
CF from fin. activities (c)	(977)	(666)	(1,768)	(168)	(1,540)
Net chg in cash (a+b+c)	(238)	(234)	868	591	(436)

Source: Company, Centrum Research Estimates

Appendix

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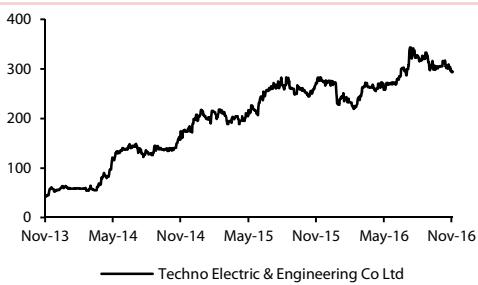
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Techno Electric price chart



Source: Bloomberg, Centrum Research

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Hold	Upside between -20% to +20%	Upside between -15% to +15%	Upside between -10% to +10%
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