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Q1FY21 result review and earnings revision

Capital Goods

Target price: Rs252

Earnings revision (Con.)

(%)	FY21E	FY22E
Revenue	↓ 13.3	↓ 12.8
EBITDA	↓ 8.3	↓ 17.1
PAT	↓ 1.3	↓ 9.7

Target price revision

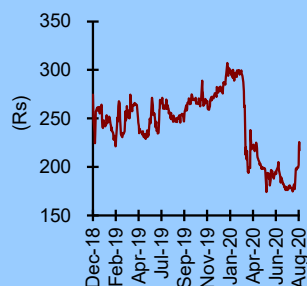
Rs252 from Rs231

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	60.2	60.2	60.2
Institutional investors	28.7	29.3	29.9
MFs and other	25.0	25.3	25.4
Banks/FIs	2.6	2.9	3.1
FII	1.1	1.1	1.4
Others	11.1	10.5	9.9

Source: NSE

Price chart



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INDIA

Techno Electric & Engineering

BUY

Maintained

Strong EPC margins support earnings

Rs205

Techno Electric & Engineering (TEEC) has reported better-than-expected margins under EPC segments in Q1FY21. The company was able to control the fixed expenses focusing on reduction in employee cost and other expenditure. It won Rs2.3bn worth of orders in the quarter and is L1 in another Rs700mn order. Order intake pipeline is strong, execution traction is gradually improving and the management is confident of a flat revenue growth in FY21E, expecting pick up in H2FY21. Factoring the stress in wind segment pricing and margins, we cut our earnings by 1.3% and 9.7% for FY21E & FY22E, respectively. Given strong balance sheet with cash and equivalents of Rs4bn, strong orderbook and healthy order intake outlook, we maintain BUY with a revised SoTP-based target price of Rs252 (previously: Rs231).

- **Strong EPC margins support earnings:** EPC revenues declined 25% YoY to Rs1.5bn despite loss of 40 days due to lockdown. Furthermore, correction in pricing of renewable energy certificates resulted in 45% drop in energy segment. Given the gradual pick up in execution, the management maintains EPC revenue guidance of ~Rs11-12bn in FY21E.
- **Healthy order intake pipeline:** Order intake in Q1FY21 stood at Rs3bn, which included L1 of Rs700mn and the company is confident regarding Rs15-20bn order intake during FY21E. The company has bid in NTPC Lot-6 and is targeting ~Rs7.5bn worth of FGD orders for FY21E. Other opportunities that will support order intake in FY21E include Rs5bn worth of orders from transmission and opportunities from smart metering and Statcom packages to be tendered in Nov'21.
- **Maintain BUY on healthy cashflows and benign valuation:** Despite challenges, the company is confident of maintaining margins at ~15%. Given the headwinds under wind segment, we cut earnings by 1.3% and 9.7% for FY21E and FY22E, respectively. However, given healthy growth outlook and cashflows, we maintain BUY with a revised SoTP-based target price of Rs252 (previously: Rs231). We have increased our valuation multiple to 15x versus 13x FY22E earnings, given healthy growth and order intake outlook and strong balance sheet. Using the SoTP methodology, we value the standalone EPC business at Rs194 (15x FY22E earnings), discounted cashflows from wind assets at Rs41 and transmission assets at Rs18 per share.

Market Cap	Rs22.8bn/US\$313mn
Bloomberg	TECHNOE IN
Shares Outstanding (mn)	110.0
52-week Range (Rs)	307/174
Free Float (%)	41.2
FII (%)	1.1
Daily Volume (US\$/'000)	196
Absolute Return 3m (%)	10.8
Absolute Return 12m (%)	(18.0)
Sensex Return 3m (%)	17.5
Sensex Return 12m (%)	5.3

Year to March	FY19	FY20	FY21E	FY22E
Revenue (Rs mn)	9,886	8,762	9,964	14,772
Adj. PAT (Rs mn)	1,934	1,791	1,528	2,045
DEPS (Rs)	17.2	16.3	13.9	18.6
% Chg YoY	(6.0)	(7.4)	(14.7)	33.9
P/E (x)	12.1	12.8	15.0	11.2
CEPS (Rs)	20.9	20.1	17.9	22.8
EV/E (x)	9.3	10.4	10.3	7.6
Dividend Yield (%)	-	-	1.0	1.9
RoCE (%)	14.8	12.4	9.9	12.1
RoE (%)	14.5	12.3	9.8	12.0

Please refer to important disclosures at the end of this report

Valuation and outlook

Given healthy order book and growth prospects, we estimate revenue CAGR of 30% over FY20-FY22E with earnings CAGR of 8% and hence, maintain BUY with a revised SoTP-based target price of Rs252 (previously: Rs231).

The stock is trading at 11x FY22E earnings. We value the EPC segment at 15x FY22E earnings versus 13x earlier given improving growth and margins outlook. Using the SoTP methodology, we value the standalone EPC business at Rs194 (15x FY22E earnings), discounted cashflows from wind assets at Rs41 and transmission assets at Rs18 per share.

Table 1: SoTP-based target price calculation

	Valuation basis	Equity value (Rs mn)	Rs/sh
EPC business	PE: 15x FY22E	21,312	194
Wind assets	DCF	4,509	41
Transmission assets		1,941	18
Target price			252

Source: I-Sec research

Table 2: Change in estimates (EPC segment)

(Rs mn)

Rs mn	FY21E			FY22E		
	Earlier	Revised	YoY (%)	Earlier	Revised	YoY (%)
Revenue	10,397	9,145	(12.0)	15,857	13,862	(12.6)
EBIDTA	1,352	1,463	8.3	2,379	2,079	(12.6)
PAT	953	1,053	10.5	1,616	1,421	(12.1)

Source: I-Sec research

Table 3: Change in estimates (consolidated)

(Rs mn)

Rs mn	FY21E			FY22E		
	Earlier	Revised	YoY (%)	Earlier	Revised	YoY (%)
Revenue	11,489	9,964	(13.3)	16,949	14,772	(12.8)
EBIDTA	2,343	2,147	(8.3)	3,503	2,905	(17.1)
PAT	1,547	1,528	(1.3)	2,264	2,045	(9.7)

Source: I-Sec research

Table 4: Financial highlights (consolidated)

(Rs mn)

	Q1FY20	1QFY21	YoY(%)	4QFY20	QoQ(%)	Isec Est	Var(%)
Total Revenue s	2,375	1,698	(28.5)	1,141	48.8	1,425	19.1
EBITDA	688	443	(35.6)	65	586.0	245	80.6
Margin	29.0	26.1	-286bps	5.7	2045bps	17.2	890bps
Depreciation	104	103	(0.8)	104	(1.5)	109	(5.6)
Finance Cost	14	12	(8.7)	12	2.4	14	(13.1)
Other Income	137	134	(2.0)	72	87.0	55	144.9
Extraordinary income	-	-		-		-	-
PBT	707	462	(34.7)	20	2,223.7	177	160.8
Tax	188	117	(37.7)	2	5,530.8	44	164.1
Tax rate	26.5	25.3	-121bps	10.5	1487bps	25.0	30bps
Profit from JV/associates	36	15	(58.1)	16	(3.7)	6	154.0
PAT	556	360	(35.2)	34	971.1	133	171.1
Adjusted PAT	556	360	(35.2)	34	971.1	19	1,767.0
Margin(%)	23.4	21.2	-219bps	2.9	1828bps	1.4	1990bps
EPS (Rs)	4.9	3.2		0.3		0.2	1,767.0

Source: Company, I-Sec research

Table 5: Segmental performance (consolidated)

(Rs mn)

	Q1FY20	1QFY21	YoY(%)	4QFY20	QoQ(%)	Isec Est	Var(%)
Revenues							
Corporate	137	120	(12.1)	72	67.7	55	119.7
Energy (Power)	341	187	(45.2)	(47)	(501.3)	307	(39.1)
EPC (Construction)	2,034	1,525	(25.1)	1,187	28.4	1,119	36.3
EBIT							
Corporate	136	120	(12.1)	71	68.0	55	119.5
Energy (Power)	201	49	(75.4)	(185)	(126.7)	92	(46.4)
EPC (Construction)	384	305	(20.5)	146	109.6	45	581.9
EBIT Margin(%)							
Corporate	99.9	99.9	0bps	99.8	10bps	100.0	-10bps
Energy (Power)	58.9	26.4	-3250bps	397.4	-37100bps	30.0	-360bps
EPC (Construction)	18.9	20.0	110bps	12.3	780bps	4.0	1600bps

Source: Company, I-Sec research

Table 6: Annual segmental financials

(Rs mn)

	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Sales	7,131	10,609	12,720	13,313	10,590	9,227	10,314	15,072
EPC	6,681	10,143	12,049	11,734	8,792	7,843	9,145	13,862
Energy	210	186	254	1,210	1,095	918	819	910
Corporate	240	280	417	370	704	465	350	300
EBIT	1,200	1,727	2,308	2,887	2,776	2,212	2,059	2,743
EPC	924	1,426	1,773	1,808	1,517	1,387	1,463	2,079
Energy	36	21	351	710	557	360	246	364
Corporate	240	280	183	370	702	465	350	300
EBIT Margin %	16.8	16.3	18.1	21.7	26.2	24.0	20.0	18.2
EPC	13.8	14.1	14.7	15.4	17.3	17.7	16.0	15.0
Energy	16.9	11.5	138.2	58.7	50.9	39.2	30.0	40.0

Source: Company, I-Sec research

Key concall highlights

Labour availability not an issue anymore, productivity is – Company lost 40 days of operation due to lockdown and although sites are fully mobilised, utilisation levels are at 50% as local transportation and connectivity are not fully in place. Some vendors are operating at 25-30% capacity. Techno hopes to recover lost revenues faster than peers given the high proportion of departmental workforce vs migrant workforce.

Margin guidance maintained – Company maintained 15% margin guidance for FY21 and EPC revenues of Rs11bn. It expects order intake to be in the range of Rs15-20bn depending on the pace of improvement in Covid-19 situation. The order intake prospects include Rs7.5bn from FGD from two projects, Rs5bn from transmission (excluding Statcom), and smart meter orders worth Rs2.5-5bn.

Buoyant ordering outlook: In Q1FY21, the company won Rs2.3bn worth of orders (from PGCIL and Sterlite) and is L1 in Rs700mn order. Orderbook stands at Rs24.5bn.

- The **FGD** opportunity of 35GW is worth Rs150bn for the next 2-3 years. The company is hopeful of winning two of four projects (6GW) that it has already bid for. For FGD, technology partner is Korean KC Cottrell.
- **In transmission** – TBCB bids of 66GW worth Rs150bn are expected to get delayed from Jun'21 to Oct'21 where Techno plans to bid for four projects worth Rs20bn. Led by Rs220bn package to power/RE sector from finance ministry, the company is seeing Invit funds participating in bids as Techno's partner, enhancing its access to capital.
- **Smart meter** – Due to China-related issue, for the current smart meter order, the company has found a new vendor (Korea based LG electronics) whose approval may result in 2-4 months of delay in execution of project. Techno is confident of 50% of the current smart meter in FY21. Management claims new partner has stronger technology and is more agile than the earlier Chinese partner
- The 3 **Statcom** packages are also in pipeline (1 under PGCIL and 2 under TBCB) and each value Rs2bn. The company has tie ups with Chinese Rongxin Power Electronic, which operates out of UK but has factory in Kolkata. Techno is hopeful of receiving the approval for registration applied.

Transmission assets: Inflow of Rs900mn is expected from the sale of Jhajjar transmission assets with capital gains of Rs450mn. The company is doubtful that Kohima agreement may not see government approval with recent restrictions on China. Techno has Rs740mn equity investment (26% stake) and project is likely to commission in Sep'20. However, it is seeing good interest from other players like Adani Transmission, IndiGrid and L&TF.

Others

- As of Jun'20-end, cash and liquid fund is Rs4bn and ~Rs2bn is in corporate bonds (average recovery of Rs300-400mn per quarter, full recovery expected by Jun'21-Sep'21).
- Total debt stands at Rs5bn, which includes Rs3.5bn from EPC and Rs1.5bn from wind. The company has not taken any provisions against Rs1.5bn worth of pending payments for the period April'18 to Mar'20 from TANGEDCO. Wind-related debtors of ~Rs1.5bn are slow moving (which is a risk) and there are also Rs500mn worth of wind-related debtors under wind segment.

Financial summary (consolidated)

Table 7: Profit and loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Total Income	9,886	8,762	9,964	14,772
Operating Expenses	7,396	6,600	7,817	11,867
EBITDA	2,491	2,162	2,147	2,905
% margins	25.2	24.7	21.5	19.7
Depreciation & Amortisation	418	416	438	462
EBIT	2,073	1,746	1,709	2,443
Gross Interest	123	61	55	50
Other Income	704	465	350	300
PBT before exceptionals	2,653	2,150	2,004	2,694
Add:				
Extraordinaries/Exceptionals	-	-	-	-
Add: Share in associates	24	14	25	25
PBT	2,677	2,164	2,029	2,719
Less: Taxes	743	373	501	673
Less: Minority Interests				
Net Income (Reported)	1,934	1,791	1,528	2,045
Adjusted Net Income	1,934	1,791	1,528	2,045

Source: Company data, I-Sec research

Table 8: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	8,740	8,565	9,725	7,226
of which cash & cash eqv.	486	428	819	710
Total Current Liabilities & Provisions	4,483	4,701	5,331	2,051
Net Current Assets	3,771	3,435	3,575	4,465
Investments	5,807	6,908	7,598	8,358
Other Non-Current Assets	166	245	269	296
Net Fixed Assets	5,451	5,068	5,130	5,168
Goodwill	10	10	10	10
Total Assets	15,690	16,093	17,401	19,007
Liabilities				
Borrowings	206	-	-	-
Deferred Tax Liability	1,222	1,128	1,128	1,128
Minority Interest	0	0	0	0
Equity Share Capital	225	220	220	220
Face Value per share (Rs)	2.00	2.00	2.00	2.00
Reserves & Surplus	14,037	14,745	16,053	17,658
Net Worth	14,262	14,965	16,273	17,878
Total Liabilities	15,690	16,093	17,401	19,007

Source: Company data, I-Sec research

Table 9: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	1,839	1,695	1,646	2,232
Working Capital Changes	(1,268)	500	(186)	(890)
Capital Commitments	(23)	386	(84)	(62)
Free Cashflow	548	2,581	1,376	1,280
Cashflow from Investing				
Activities	(1,687)	(7)	(365)	(487)
Issue of Share Capital				
Buyback of shares	-	(1,100)	-	-
Inc (Dec) in Borrowings	(41)	(206)	-	-
Interest paid	(123)	(61)	(55)	(50)
Dividend paid	-	-	(220)	(440)
Extraordinary				
Items/Others	1,370	(1,264)	(344)	(413)
Chg. in Cash & Bank				
balance	67	(57)	391	(110)

Source: Company data, I-Sec research

Table 10: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (in Rs.)				
Diluted adjusted EPS	17.2	16.3	13.9	18.6
Recurring Cash EPS	20.9	20.1	17.9	22.8
Dividend per share (DPS)	-	-	2.0	4.0
Book Value per share (BV)	126.6	136.0	147.9	162.5
Growth Ratios (%)				
Operating Income	(23.6)	(11.4)	13.7	48.3
EBITDA	(15.3)	(13.2)	(0.7)	35.3
Recurring Net Income	(6.0)	(7.4)	(14.7)	33.9
Diluted adjusted EPS	(6.0)	(7.4)	(14.7)	33.9
Diluted Recurring CEPS	(5.2)	(6.2)	(10.9)	27.5
Valuation Ratios				
P/E	12.1	12.8	15.0	11.2
P/CEPS	10.0	10.4	11.6	9.1
P/BV	1.6	1.5	1.4	1.3
EV / EBITDA	9.3	10.4	10.3	7.6
EV / Operating Income	2.3	2.6	2.2	1.5
EV / Operating FCF (pre-capex)	11.7	20.1	15.1	16.5
Operating Ratios				
Raw Material/Sales (%)	64.1	63.6	68.8	69.4
SG&A/Sales (%)	6.5	7.2	5.6	7.9
Other Income / PBT (%)	26.5	21.6	17.5	11.1
Effective Tax Rate (%)	28.0	17.4	25.0	25.0
NWC / Total Assets (%)	21.8	18.7	17.9	23.6
Inventory Turnover (days)	7.0	2.7	2.7	2.7
Receivables (days)	201	239	240	146
Payables (days)	188	232	223	47
Net D/E Ratio (x)	(0.0)	(0.0)	(0.1)	(0.0)
Return/Profitability Ratios (%)				
Recurring Net Income Margins	19.6	20.4	15.3	13.8
RoCE	14.8	12.4	9.9	12.1
RoNW	14.5	12.3	9.8	12.0
Dividend Payout Ratio	0.0	0.0	14.4	21.5
Dividend Yield (%)	0.0	0.0	1.0	1.9
EBITDA Margins	25.2	24.7	21.5	19.7

Source: Company data, I-Sec research

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