

Fundamental Pick

20th May 2014

Sensex: 24,376

Nifty: 7,275

CMP: ₹ 222

Target Price: ₹ 291.5

Rating: Buy

About the Company: Techno Electric & Engineering Company Ltd. was established in 1963. It entered the power transmission and distribution segment in 1980 and in 2009 it entered the power generation sector by acquiring two wind energy generation companies. Today, Techno Electric has aggregated heavy engineering skills and light construction capabilities across India's power generation, transmission and distribution segments. Also the Company has emerged as an independent power producer with 207.35 MW wind energy capacity as on March 31, 2013.

Investment Rationale

52 Week High/Low ₹ 224/69

Bloomberg Code TEEC IN

Reuters Code TEEC.BO

Face Value ₹ 2

No of o/s shares in cr 5.70

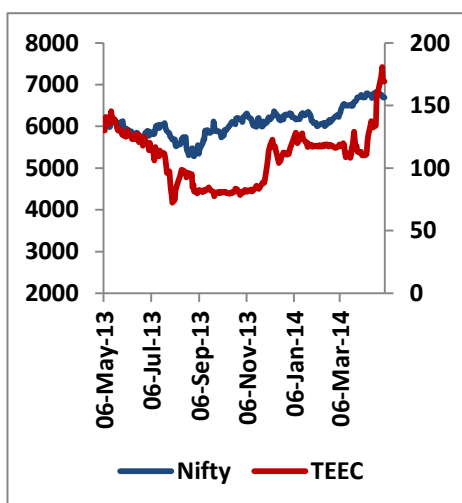
Market Cap in cr 1,267

Favourable conditions across Industry: India is expected to add ~ 75,000 MW generation capacities in the 12th plan. TEEC has the expertise to cater to ~17-20% of the total spending required in power generation plants, thus it has a large addressable market given the planned increase in generation capacity. PGCIL, one of its biggest clients is likely to enhance its transmission spend by ~2x, this will augur well for TEECs top-line.

Improving Macro Environment: In our view the economy has bottomed out and is poised for steady growth in the coming quarters. We also see the new NDA government led by Mr. Modi to be business friendly and see the change as a much needed boost to sentiment in the market. A larger addressable market coupled with pick-up in the capex and investment cycle throughout the industry and a new business friendly government at the helm, we expect TEEC to be well poised to benefit from the overall scenario.

Shareholding	Mar-14	Dec-13	Sep-13
Promoters (%)	59.28	54.97	54.97
FII (%)	2.03	2.03	2.04
DII (%)	1.31	1.31	1.32
Others (%)	37.38	41.69	41.67

Price Performance



Outlook & Valuation: Given the favourable market conditions for TEECs overall business, its focus on maintaining industry leading margins both at the operating and net profit level, focus towards the less crowded 750 kv transmission segment and BOOT & BOOM projects under the PPP model, we see TEEC maintain a strong order book together with the capability of translating the same into a robust top-line growth. Thus we expect TEEC to grow its top-line by ~20% CAGR over FY14E-FY16E and the same translating into strong bottom-line numbers. TEEC is currently trading at 10x and 8.3x FY15E and FY16E EPS, respectively. We have thus valued TEEC at a target PE multiple of 11x on FY16E EPS and thus arrive at a price target of Rs. 291.5 with a time horizon of one year.

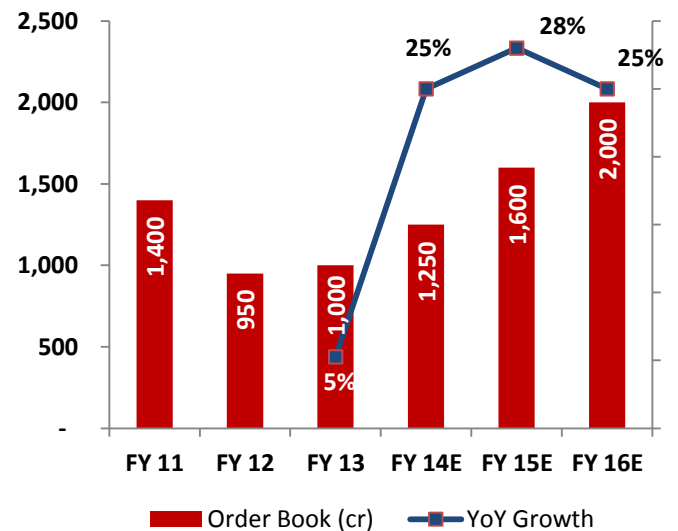
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Company Profile: Incorporated in 1963, Techno Electric & Engineering Company Limited (TEEC) is headquartered in Kolkata. It is involved in the following business segments.

- **EPC contracting** focused on the India Power sector
 - Turnkey projects ranging from complete power generating plants to system packages of plants tailored to complement larger systems provided by others
 - Electrical system across generation, Transmission & Distribution up to 765 kv
 - Tailored power solutions for Industries such as Aluminium, petrochemicals etc
- **Renewable Power Generation** - Operates 207 MW of Wind Energy assets and plans to expand further
- **Transmission**- Successfully commissioned first ever Viability Gap Funded 400 Kv intra-state Power transmission project in Public- Private Partnership with Kalpataru power with a concession period of 25 years (extendable by 10 years)

Fresh Orders: 1) Bagged a concession from PFC Consulting Ltd. for building a transmission network for Rs. 200 crore at Patran, Punjab on BOOM basis for a period of 35 years, the project is scheduled to be commissioned by June 2016. 2) 765/ 400 kv sub- station Extension package for Solapur, Aurangabad, Kurnool & Raichur and 400 kv package for Sagardighi and Behrampur sub- station from PGCIL for Rs. 125 crore. 3) 220/ 132/ 33 kv Grid sub- stations at Sonenagar and Samastipur from Bihar State Power Transmission Co. Ltd. for 140 crores.



Positive Outlook: We expect TEEC to achieve its targeted order book of Rs. 1,250 crore for FY14E given the fact that GDP growth has bottomed out throughout the economy and we see upside from here on for the next two years. We also expect a revival of the capex cycle and investments in the power space, this will in turn see more projects being rewarded and TEEC being one of the leaders in the Power EPC space will be awarded its fair chunk of orders. There is an improvement of sentiment throughout the economy. The sentiment has also been buoyed due to the election results, which has seen the NDA win a strong and clear mandate from the Indian democracy. This new government is viewed as business friendly and will be expected to implement policy reforms throughout the economy with onus on infrastructure and power sector reforms.

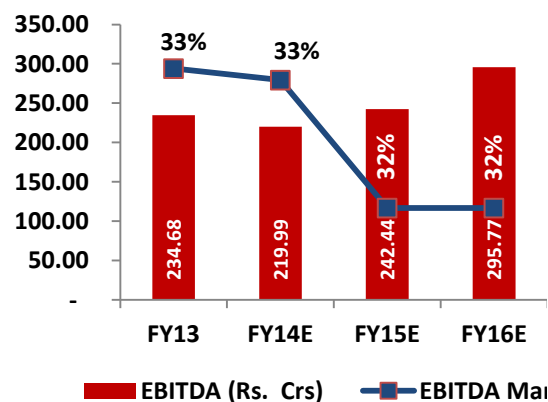
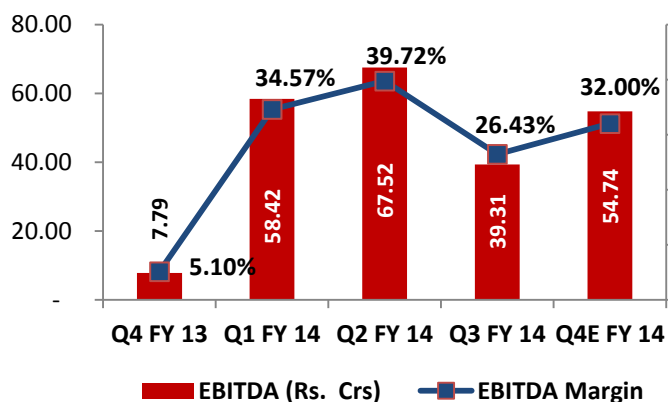
Order Book Status: The company witnessed an order book slowdown over FY12-FY13 due to industrial slowdown and weak economic conditions as companies opted to keep capex to a minimum and shifted focus towards strengthening overall operations and sure up margins. The company took this opportunity to close out around 20 projects and generated last mile revenue (as against 6 projects per year) as it cleared the ground for fresh orders. The management maintains an outlook for the order book to be around Rs. 1,250 crore for FY14 (revenue visibility for 2 years). We see TEECs order book to be around Rs. 2,000 crore by FY 16E.

EPC- TEEC witnessed revenue slowdown during the FY12-14 period specifically in the EPC business due to low order book intake and a weak overall environment as described earlier. We expect the EPC business to grow at 16-19% CAGR over the FY14-FY16E period given improved order intake in the same.

Wind: TEEC was able to maintain good revenue from its 207 MW of wind assets through excellent management of its facilities. It did so by operating the current capacity at a PLF of over 26%, which is one of the highest within India’s wind energy generation sector where the prevailing average is 20%. We expect TEEC to post weak revenues for Q4 FY14 and to adjust the PLF accordingly. Going forward we see a delay in new capacity addition in this space but expect steady cash flows from the existing projects together with healthy margins.

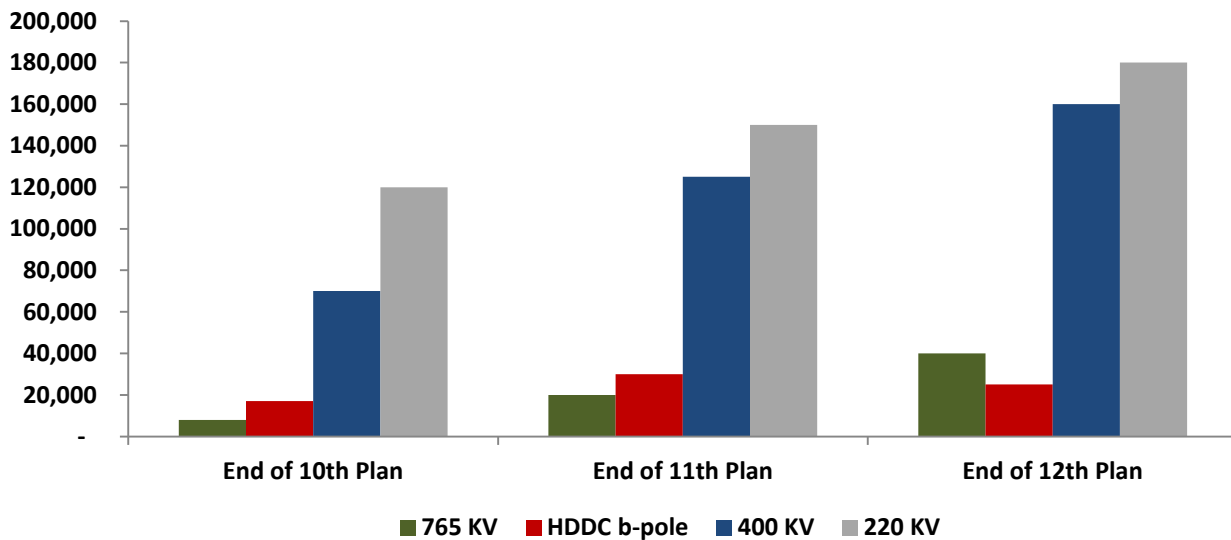
Particulars (in Rs. Crs)	FY13	FY14E	FY15E	FY16E
EPC (Construction)	515.89	497.73	553.20	682.75
Energy (Power)	184.23	140.00	205.48	253.59
Corporate	20.59	41.13	31.61	39.01
Total	720.71	678.86	790.29	975.36

Margin- TEEC has seen continued improvement in its margins after it disappointed in Q4 FY13. Going forward we expect it to maintain its industry beating overall EBITDA Margins of about 30% and PAT Margins of about 17%. TEEC has enjoyed 13-15% margin in its EPC business which is better than industry standard, while the Operating Margins for the wind business have been around 96%. TEEC has been able to achieve industry beating PLF from its wind assets which has translated nicely into good operating margins for the business. The company remains dedicated towards improvement of its PLF which will translate into strong margins. Given TEECs continued focus on the margin front, we expect it to maintain a healthy margin both at the EBITDA and PAT levels for its overall business



Shifting focus- the company witnessed stiff competition in the 400 kv space as competitors quoted lower prices with an objective to carve out larger share of projects, the company thus chose to move laterally to the 765 kv segment (first for the company) and completed the 765 kv sub-station in Raigarh for PGCIL. It completed this in a record 15 months and PGCIL declared the project a role model for onward national replication. The entry barrier in the 765 kv segment remains high and the company has made an excellent entry into the segment. TEEC further plans to bid for more 765k kv projects as compared to the crowded 400 kv space. The company also plans to further its interest in the BOOT (Build Operate Own Transfer) & BOOM (Build Operate Own Manage) projects as it plans to further its interest in the PPP (Private Public Partnership) model and replicate the expertise it has gathered from the execution of the 400 Kv/ 1500 MVA transmission network in Haryana capable of transferring 2430 MW of power. The following graph outlines the addressable market for TEEC in the transmission space.

India's existing transmission lines and expansion during 2012-17E (in ckm)



Key Risk:

- Unwillingness by the power generation companies to up their capex spends and investments in capacity additions may impact TEECs top-line negatively.
- In addition to this delay of payments by SEBs (exposure to SEBs fairly low at the moment) may impact TEECs ability to generate cash and thus may hamper its ability to reinvest it into BOOT and BOOM projects which require certain capex upfront.
- Failure to maintain its current margins due to stiff competition in the EPC space. TEEC has installed a buffer to negate this by entering the 750 KV transmission segment which does not have a lot of competition currently.

Outlook: We Expect TEEC to grow its top-line by 15% and 25% in FY15E and FY 16E respectively. This should be achievable due to favourable economic environment in the coming years, strong management which is focused on high margins and a stellar track record.

Financials:

Particulars (Rs. Crs)	FY13	FY14E	FY15E	FY16E
Total	700.13	643.73	757.61	924.28
Expenses				
Consumption of materials and stores	374.05	357.89	416.69	508.36
purchase of stock in trade	-	-	-	-
(increase)/ Decrease in inventories	0.60	(1.08)	-	-
employee benefit expense	32.45	30.42	37.88	46.21
other expenses	58.35	51.57	60.61	73.94
Total	465.45	438.80	503.40	629.25
EBITDA	234.68	204.93	236.89	296.12
Depreciation	65.49	69.02	83.34	101.67
Other Income & Exceptional Items	20.53	37.96	25.00	25.00
EBIT	189.72	173.87	180.46	219.33
Finance Cost	52.17	46.02	50.76	61.93
PBT	137.54	127.86	130.86	157.33
Tax Expenses	15.10	11.61	5.23	6.29
PAT	122.44	116.25	125.63	151.03
EPS	21.5	20.4	22.0	26.5

Valuation: Given the favourable market conditions for TEECs overall business, its focus on maintaining industry leading margins both at the operating and net profit level, focus towards the less crowded 750 kv transmission segment and BOOT & BOOM projects under the PPP model we see TEEC maintain a strong order book together with the capability of translating the same into a robust top-line growth. Thus we see TEEC grow its top-line by ~20% CAGR over FY14E-FY16E and the same translating into strong bottom-line numbers. TEEC is currently trading at 10x and 8.3x FY15E and FY16E EPS, respectively. We have valued TEEC at a target PE multiple of 11x on FY16E EPS of Rs. 26.5 and thus arrive at a price target of Rs. 291.5 with a time horizon of one year.

Greshma’s Valuation/ Fundamental Model

Valuations: A, CSI: 4/5. We expect ~30% appreciation from current price levels.

	> 20%	A	HOLD		BUY	STRONG BUY Techno Electric		
	+5% to +5%	B	HOLD		BUY	BUY		
	+5% to -5%	C	REDUCE			HOLD		
	-5% to -20%	D	SELL			HOLD		
	< -20%	E	SELL			SELL		
			1	2	3	4	5	
			VERY POOR	POOR	MODERATE	GOOD	VERY GOOD	
CORE STRENGTH INDEX								

Core Strength Index	Weightage
Industry/Market Structure	25%
Company Track Record	25%
Investor Orientation	25%
Opportunity Spectrum	25%

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