

Q1FY22 result review

Capital Goods

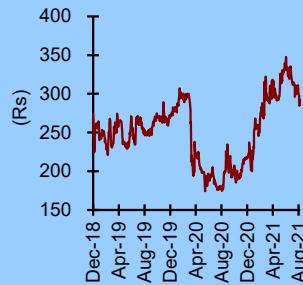
Target price: Rs411

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	60.2	60.2	60.2
Institutional investors	28.7	32.0	32.1
MFs and other	25.2	28.5	29.6
Banks/FIs	2.5	2.5	2.5
FII	1.0	1.0	1.0
Others	11.1	7.8	6.7

Source: NSE

Price chart



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Techno Electric & Engineering

BUY

Maintained

Rs292

Healthy margins offset revenue miss

Techno Electric & Engineering (TEEC) has reported 310bps YoY increase in margins to 29%, offsetting the miss in revenue at Rs1.9bn vs our estimate of Rs2.4bn. Order intake is likely to pick up in FY22E led by FGD and Power Grid ordering, management is guiding Rs20bn of order intake in FY22E and is L1 in Rs4bn worth of orders. TEEC plans to enter data centre market with an investment outlay of Rs7.5bn over the next 2 years – it expects 20% RoE from the same. Given the strong balance sheet with cash and equivalents of Rs8bn, healthy order intake outlook and recent foray towards the lucrative data centre segment, we maintain **BUY** on the stock with unchanged SoTP-based target price of Rs411.

- ▶ **Execution miss due to covid, margin improvement supports earnings:** EPC revenue grew 6.6% YoY to Rs1.6bn in Q1FY22 over a low base and was below expectations. However, EPC margins were better than expectations at 19.6%. Energy segment also booked healthy growth and margins leading to 30% YoY growth in PAT to Rs471mn. The management is maintaining the guidance of Rs12bn of revenue from EPC segment for FY22E.
- ▶ **Healthy order intake pipeline:** The company is L1 in Rs4bn worth of orders, majority of which are close to finalisation. The management is guiding for Rs20bn of order intake in FY22E of which FGD is expected to be Rs12bn, Rs4bn from transmission and Rs2bn from smart meters.
- ▶ **Maintain BUY on healthy cashflow and benign valuation:** Despite challenges, the company is confident of maintaining margins at ~15%. Given healthy growth outlook and cashflow, we maintain **BUY** with unchanged SoTP-based target price of Rs411. We believe the foray towards data centre business will be positive in the long run as it gives an avenue to utilise the wind power efficiently and provides the company a foothold in a promising growth segment. Using the SoTP methodology, we value the standalone EPC business at Rs297 (20x FY23E earnings), discounted cashflow from wind assets at Rs44, transmission assets at Rs10 per share and cash and equivalents at Rs60 per share.

Market Cap	Rs32.1bn/US\$432mn	Year to March	FY20	FY21	FY22E	FY23E
Bloomberg	TECHNOE IN	Revenue (Rs mn)	8,762	8,892	11,816	15,987
Shares Outstanding (mn)	110.0	Adj. PAT (Rs mn)	1,791	1,818	1,844	2,344
52-week Range (Rs)	348/177	DEPS (Rs)	16.3	16.5	16.8	21.3
Free Float (%)	39.8	% Chg YoY	(7.4)	1.5	1.4	27.1
FII (%)	1.0	P/E (x)	17.9	17.6	17.4	13.7
Daily Volume (US\$/'000)	911	CEPS (Rs)	20.1	20.3	20.8	25.5
Absolute Return 3m (%)	(7.4)	EV/E (x)	14.6	14.6	10.7	7.9
Absolute Return 12m (%)	66.2	Dividend Yield (%)	-	1.4	1.7	1.7
Sensex Return 3m (%)	14.8	RoCE (%)	12.4	12.0	11.0	12.9
Sensex Return 12m (%)	48.3	RoE (%)	12.3	11.7	11.0	12.8

Valuation and outlook

The stock is trading at 13.7x FY23E earnings. Using the SoTP methodology, we value the standalone EPC business at Rs297 (20x FY23E earnings), discounted cashflow from wind assets at Rs44 and transmission assets at Rs10 per share and cash and equivalents at Rs60 per share.

We have not factored in any valuation for the data centre asset ownership plans as the company is yet to invest money in the same. However, given the lucrative growth opportunities in terms of ownership and EPC for third-party data centre projects, we value the EPC segment at 20xFY23E earnings.

Table 1: SoTP-based target price calculation

SoTP	Valuation Basis	Equity Value (Rs mn)	Rs/Sh
EPC Business	PE: 20x FY23E	32,678	297
Wind Assets	DCF	4,834	44
Transmission assets	1.5x P/BV	1,131	10
Cash & equivalents (post tax @20%)		6,095	60
Target Price			411

Source: I-Sec research

Table 2: Financial highlights (consolidated)

(Rs mn)

	1QFY21	1QFY22	YoY(%)	4QFY21	QoQ(%)	Isec Est	Var(%)	FY20	FY21	YoY(%)
Total Revenues	1,698	1,895	11.6	2,148	(11.8)	2,390	(20.7)	8,762	8,892	1.5
EBITDA	443	552	24.5	190	191.0	580	(4.9)	2,162	2,161	(0.0)
Margin	26.1	29.1	302bps	8.8	2030bps	24.3	490bps	24.7	24.3	-40bps
Depreciation	103	104	0.9	103	0.5	103	0.9	416	412	(1.0)
Finance Cost	12	18	42.6	23	(23.5)	12	42.6	61	78	28.2
Other Income	134	172	28.3	83	106.0	90	90.9	465	669	43.7
Extraordinary income	-	-	-	-	-	-	-	-	-	-
PBT	462	602	30.4	147	310.3	555	8.5	2,150	2,339	8.8
Tax	117	147	25.6	19	661.9	117	25.6	373	503	34.8
<i>Tax rate</i>	25.3	24.4	-93bps	13.1	1126bps	21.1	330bps	17.4	21.5	410bps
Profit from JV/associates	15	15	1.6	(34)	(146.2)	10	54.8	14	(18)	(227.6)
PAT	360	471	30.7	94	400.9	438	7.5	1,791	1,818	1.5
Adjusted PAT	360	471	30.7	94	400.9	438	7.5	1,791	1,818	1.5
Margin (%)	21.2	24.9	363bps	4.4	2048bps	18.3	650bps	20.4	20.4	0bps
EPS (Rs)	3.2	4.2		0.8		3.9	7.5	16.3	16.5	

Source: Company, I-Sec research

Table 3: Segmental performance (consolidated)

(Rs mn)

	1QFY21	1QFY22	YoY(%)	4QFY21	QoQ(%)	Isec Est	Var(%)	FY20	FY21	YoY(%)
Revenues										
Corporate	120	170	41.5	77	121.4	90	88.7	465	643	38.1
Energy (Power)	187	271	45.2	27	913.9	300	(9.6)	918	1,000	8.9
EPC (Construction)	1,525	1,625	6.6	2,128	(23.6)	2,000	(18.7)	7,843	7,917	0.9
EBIT										
Corporate	120	169	40.9	77	120.7	90	87.7	465	643	38.1
Energy (Power)	49	133	(169.0)	(231)	(157.5)	180	(26.2)	360	326	(9.4)
EPC (Construction)	305	318	4.3	324	(1.7)	300	6.1	1,387	1,449	4.5
EBIT Margin (%)										
Corporate	99.9	99.4	-50bps	99.7	-30bps	100.0	-60bps	100.0	100.0	0bps
Energy (Power)	26.4	48.9	2250bps	(862.6)	91150bps	60.0	-1110bps	39.2	32.6	-660bps
EPC (Construction)	20.0	19.6	-40bps	15.2	440bps	15.0	460bps	17.7	18.3	60bps

Source: Company, I-Sec research

Table 4: Annual segmental financials trend and assumptions

(Rs mn)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Sales	10,609	12,720	13,313	10,590	9,227	9,586	12,216	16,387
EPC	10,143	12,049	11,734	8,792	7,843	7,917	10,792	14,963
Energy	186	254	1,210	1,095	918	1,000	1,024	1,024
Corporate	280	417	370	704	465	669	400	400
EBIT	1,727	2,308	2,887	2,776	2,212	2,418	2,485	3,153
EPC	1,426	1,773	1,808	1,517	1,387	1,449	1,727	2,394
Energy	21	351	710	557	360	326	358	358
Corporate	280	183	370	702	465	643	400	400
EBIT Margin %	16.3	18.1	21.7	26.2	24.0	25.2	20.3	19.2
EPC	14.1	14.7	15.4	17.3	17.7	18.3	16.0	16.0
Energy	11.5	138.2	58.7	50.9	39.2	32.6	35.0	35.0

Source: Company, I-Sec research

Financial summary (consolidated)

Table 5: Profit and loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Total Income	8,762	8,892	11,816	15,987
Operating Expenses	6,600	6,731	9,292	12,772
EBITDA	2,162	2,161	2,524	3,215
% margins	24.7	24.3	21.4	20.1
Depreciation & Amortisation	416	412	439	462
EBIT	1,746	1,749	2,085	2,753
Gross Interest	61	78	60	60
Other Income	465	669	400	400
PBT before exceptions	2,150	2,339	2,425	3,093
Add:				
Extraordinaries/Exceptionals	-	-	-	-
Add: Share in associates	14	(18)	25	25
PBT	2,164	2,321	2,450	3,118
Less: Taxes	373	503	606	773
Less: Minority Interests				
Net Income (Reported)	1,791	1,818	1,844	2,344
Adjusted Net Income	1,791	1,818	1,844	2,344

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	8,565	8,793	15,357	20,511
of which cash & cash eqv.	428	808	5,072	6,595
Total Current Liabilities & Provisions	4,701	4,313	6,017	7,964
Net Current Assets	3,435	3,673	4,268	5,952
Investments	6,908	7,138	3,569	1,071
Other Non-Current Assets	245	1,429	472	519
Net Fixed Assets	5,068	4,657	5,217	6,255
Goodwill	10	10	10	10
Total Assets	16,094	17,713	18,607	20,401
Liabilities				
Borrowings	-	400	-	-
Deferred Tax Liability	1,128	1,151	1,151	1,151
Minority Interest	0	0	0	0
Equity Share Capital	220	220	220	220
Face Value per share (Rs)	2.00	2.00	2.00	2.00
Reserves & Surplus	14,745	15,942	17,236	19,031
Net Worth	14,965	16,162	17,456	19,251
Total Liabilities	16,093	17,713	18,607	20,401

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	1,695	1,680	1,918	2,442
Working Capital Changes	500	(169)	(710)	(1,684)
Capital Commitments	386	416	(589)	(1,061)
Free Cashflow	2,581	1,927	619	(303)
Cashflow from Investing Activities				
Issue of Share Capital	(7)	(746)	4,926	2,851
Buyback of shares	(1,100)	-	-	-
Inc (Dec) in Borrowings	(206)	400	(400)	-
Interest paid	(61)	(78)	(60)	(60)
Dividend paid	-	(440)	(550)	(550)
Extraordinary Items/Others				
Chg. in Cash & Bank balance	(1,264)	(683)	(272)	(414)
	(57)	380	4,264	1,524

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (in Rs.)				
Diluted adjusted EPS	16.3	16.5	16.8	21.3
Recurring Cash EPS	20.1	20.3	20.8	25.5
Dividend per share (DPS)	-	4.0	5.0	5.0
Book Value per share (BV)	136.0	146.9	158.7	175.0
Growth Ratios (%)				
Operating Income	(11.4)	1.5	32.9	35.3
EBITDA	(13.2)	(0.0)	16.8	27.4
Recurring Net Income	(7.4)	1.5	1.4	27.1
Diluted adjusted EPS	(7.4)	1.5	1.4	27.1
Diluted Recurring CEPS	(6.2)	1.0	2.4	22.9
Valuation Ratios				
P/E	17.9	17.6	17.4	13.7
P/CEPS	14.5	14.4	14.0	11.4
P/BV	2.1	2.0	1.8	1.7
EV / EBITDA	14.6	14.6	10.7	7.9
EV / Operating Income	3.6	3.6	2.3	1.6
EV / Operating FCF (pre-capex)	28.3	20.9	22.3	33.5
Operating Ratios				
Raw Material/Sales (%)	63.6	64.0	67.6	69.3
SG&A/Sales (%)	7.2	7.9	7.9	8.1
Other Income / PBT (%)	21.6	28.6	16.5	12.9
Effective Tax Rate (%)	17.4	21.5	25.0	25.0
NWC / Total Assets (%)	18.7	18.4	19.4	22.7
Inventory Turnover (days)	2.7	2.6	2.7	2.7
Receivables (days)	239	218	210	210
Payables (days)	232	212	216	213
Net D/E Ratio (x)	(0.0)	(0.0)	(0.3)	(0.3)
Return/Profitability Ratios (%)				
Recurring Net Income Margins	20.4	20.4	15.6	14.7
RoCE	12.4	12.0	11.0	12.9
RoNW	12.3	11.7	11.0	12.8
Dividend Payout Ratio	0.0	24.2	29.8	23.5
Dividend Yield (%)	0.0	1.4	1.7	1.7
EBITDA Margins	24.7	24.3	21.4	20.1

Source: Company data, I-Sec research

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