

Q1FY22 result review

Capital Goods

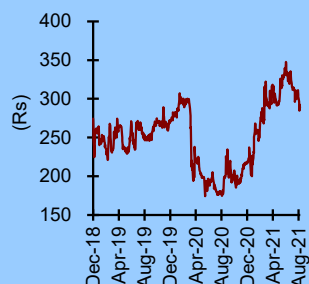
Target price: Rs411

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's	1.0	1.0	1.0
Others	11.1	7.8	6.7

Source: NSE

Price chart



Techno Electric & Engineering

BUY

Maintained

Healthy margins offset revenue miss

Rs292

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.

Research Analyst:

Renjith Sivaram

renjith.sivaram@icicisecurities.com
+91 22 6637 7340

Market Cap	Rs32.1bn/US\$432mn
Bloomberg	TECHNOE IN
Shares Outstanding (mn)	110.0
52-week Range (Rs)	348/177
Free Float (%)	39.8
FII (%)	1.0
Daily Volume (US\$/'000)	911
Absolute Return 3m (%)	(7.4)
Absolute Return 12m (%)	66.2
Sensex Return 3m (%)	14.8
Sensex Return 12m (%)	48.3

Year to March	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	8,762	8,892	11,816	15,987
Adj. PAT (Rs mn)	1,791	1,818	1,844	2,344
DEPS (Rs)	16.3	16.5	16.8	21.3
% Chg YoY	(7.4)	1.5	1.4	27.1
P/E (x)	17.9	17.6	17.4	13.7
CEPS (Rs)	20.1	20.3	20.8	25.5
EV/E (x)	14.6	14.6	10.7	7.9
Dividend Yield (%)	-	1.4	1.7	1.7
RoCE (%)	12.4	12.0	11.0	12.9
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 20x FY23E 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
Tax rate	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 exceptionals	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	(7)	(746)	4,926	2,851
Issue of Share Capital				
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	(1,264)	(683)	(272)	(414)
Chg. in Cash & Bank balance	(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

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

*New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return*

ANALYST CERTIFICATION

I/We, *Renjith Sivaram, BE, MBA (Finance)*; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.