

## One-time blip but future looks bright...

**About the stock:** Techno Electric Engineering Company (TEEC) is one of the leading power-infrastructure companies engaged in three primary business segments; EPC (construction), renewable power generation (wind power) and public-private partnership (PPP) projects in transmission & distribution (T&D).

- **EPC Business:** Contributed ~92% to FY22 revenue, generated excellent RoCE of 50-75% over the past five years. **PPP projects business:** It is present in BOOT/BOOM transmission projects in PPP mode. **Wind power:** TEEC owns ~130 MW of wind power generation capacity

**Q3FY23 Results:** TEEC reported a weak set of Q3FY23 numbers.

- Consolidated revenues came in at ₹ 185.3 crore, down 37.7% YoY, impacted by supply-chain constraints and seeing a one-time blip
- EBITDA came in at ₹ 23.4 crore, down 42.3% YoY with margins at 12.6%, contracting 99 bps YoY
- Consequently, PAT de-grew 74.9% YoY to ₹ 30.5 crore as last year's other income included proceeds from the sale of Kohima Mariani Transmission asset

**What should investors do?** Strong pick-up in execution, sale of wind energy assets and foray into data centre business to drive strong financial performance, going ahead.

- We continue to remain positive and retain our **BUY** rating on the stock

**Target Price and Valuation:** We value TEEC at ₹ 500 i.e. 19x PE on FY25E.

**Key triggers for future price performance:**

- Entry into data centre, smart meters and FGD market and become significant EPC player over the next three to four years
- Improved revenue visibility, healthy balance sheet and cash balance of ₹ 1500 crore
- We expect revenue, EBITDA to grow at a CAGR of ~39.8%, 13.1%, respectively, in FY23-25E

**Alternate Stock Idea:** We also like AIA Engineering in our coverage.

- New mining customer acquisition is expected to pick up. This will allow AIA to gain incremental volume growth in coming years
- BUY with a target price of ₹ 3135



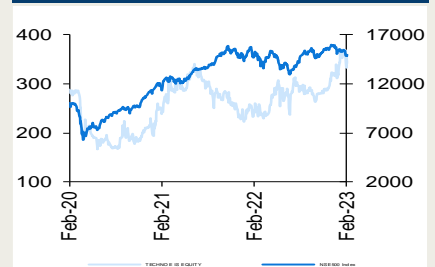
### Particulars

Particular	Amount
Market Capitalization	₹3978 Crore
Total Debt (FY22)	₹0 Crore
Cash and Inv (FY21)	₹1163 Crore
EV (FY21)	₹2642 Crore
52 week H/L (₹)	391 / 224
Equity capital	₹22.0 Crore
Face value (₹)	10.0

### Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promotr	60.2	60.2	60.2	61.2
FII	1.2	1.4	1.6	1.7
DII	27.3	27.3	26.8	26.0
Others	11.3	11.1	11.4	11.2

### Price Chart



### Key risks

- High cash on balance sheet could drag return ratios, capital allocation
- Any delay in transmission capex, TBCB bidding could impact profit

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### Key Financial Summary

(₹Crore)*	FY21	FY22	FY23E	5-Year CAGR (FY18-FY23E)	FY24E	FY25E	2-Year CAGR (FY23-25E)
Revenue (₹crore)	889.2	1,073.9	1,071.6	-3.7%	1,593.9	2,095.0	39.8%
EBITDA (₹crore)	216.1	222.2	237.6	-4.2%	231.1	303.8	13.1%
EBITDA margin (%)	24.3	20.7	22.2		14.5	14.5	
Net Profit (₹crore)	181.8	263.9	235.1	2.7%	233.2	289.1	10.9%
EPS (₹)	16.5	24.0	21.4		21.2	26.3	
P/E (x)	21.4	14.8	16.6		16.7	13.5	
Price / Book (x)	2.5	2.1	2.0		1.9	1.7	
EV/EBITDA (x)	18.5	17.6	16.1		17.1	13.1	
RoCE (%)	14.1	16.9	14.8		13.8	15.9	
RoE (%)	11.6	14.4	12.0		11.1	12.7	

## Key takeaways of recent quarter & conference call highlights

### Q3FY23 Results: One-time blip but future looks bright

- Techno Electric Engineering (TEEC) reported consolidated revenues at ₹ 185.3 crore, down 37.7% on a YoY basis owing to lower revenues in EPC segment. It grew 27% QoQ. EPC, others (wind power) and unallocable contributed ~89.6%, 0.7% and 9.7%, respectively
- For Q3FY23, EPC revenue de-grew 37.7% YoY to ₹ 183.9 crore and grew 27% QoQ. Others (Energy) segment revenue grew 23.7% YoY to ₹ 1.4 crore and de-grew 95.4% on a QoQ basis
- Absolute EBITDA came in at ₹ 23.4 crore, down 42.3% YoY. Overall EBITDA margin came in at 12.6%, contracting by 99 bps YoY. EPC segment reported EBIT margins of 12.2% (vs. 13.5% in Q3FY22) and Others (Energy) segment reported EBIT loss of ₹ 90 lakh vs. ₹ 1.3 crore in Q3FY22)
- Consequently, PAT came in at ₹ 30.5 crore, down 74.9% YoY as last year in the same period other income was ₹ 120.2 crore and in Q3FY23 it was at ₹ 20 crore

### Q3FY23 Earnings Conference Call highlights

- Q3FY23 revenues impacted amid supply-chain constraints (non-availability of semiconductors, electronics components and 765kV GIS modules) and had a onetime blip. The management has slightly cut the revenue guidance for FY23E to ₹1000-1100 crore vs. ₹ 1200 crore earlier. We reiterate EPC revenue for FY24E will be at ~ ₹ 1600 crore and ₹ 2000 crore for FY25E. For FY23E, the company has guided 14% EBITDA margin while for FY24E and FY25E margins will be at 14.5%. For Q4FY23E, revenue will be at ~ ₹ 500 crore
- Further break-up of FY24E ₹ 1600 crore revenue, ₹ 500-600 crore will come from FGD segment, ₹ 400 crore will come from transmission segment, ₹ 350 crore will come from data centre and remaining ₹ 300 crore will come from Advanced Metering Infrastructure (AMI) segment
- Techno Electric has sold off 111 MW of its wind assets in Tamil Nadu, for ₹ 450 crore led by its decision to exit the noncore business. This is expected to improve receivables, going forward. The company sold its wind power assets at 80% purchase value, after 12 years of use
- Other income in Q3FY23 was at ₹ 20 crore vs. ₹ 120 crore in Q3FY22. Last year's other income included proceeds from the sale of Kohima Mariani Transmission asset
- Techno Electric's first datacentre in Chennai should be operational by September 2023. The company is very close to finding a JV partner and received term sheets from two to three large players based out of the US or Singapore and expects it to get finalised in six to eight months
- For Q3FY23, order inflow came in at ₹ 500 crore against ₹ 250 crore in Q3FY22 (key order wins Sterlite Power Goa, REC smart meters). Order book was at ₹ 4000 crore in Q3FY23. For FY24, the management indicated ₹ 5000 crore order bids pipeline and expects order momentum to continue across FGD, T&D and smart metering. The company expects to bag another ₹ 1000 crore order in Q4FY23E

**Exhibit 1: Variance Analysis**

Year	Q3FY23	Q3FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Income from Operation	185.3	297.6	(37.7)	173.0	7.1	Impacted amid supply chain constraints and witnessed a one-time blip
Other Income	20.0	120.2	(83.4)	13.4	48.4	Q3FY22 other income included proceeds from the sale of Kohima Mariani Transmission asset
Cost of materials consumed	142.4	272.7	(47.8)	97.7	45.8	
Power & Fuel	0.0	0.0	-	0.0	-	
Changes in inventories of finished goods & WIP	(5.1)	(37.4)	(86.3)	4.1	(226.4)	
Employee cost	9.8	9.3	6.2	8.6	14.1	
Other expenses	14.8	12.5	17.8	14.8	(0.2)	
EBITDA	23.4	40.4	(42.3)	47.8	(51.1)	
EBITDA Margin (%)	12.6	13.6	-99 bps	27.6	-1502 bps	
Depreciation	1.9	1.8	6.5	10.2	(81.2)	
Interest	1.6	1.6	0.1	1.4		
PBT	39.7	157.2	(74.7)	49.6	(19.8)	
Taxes	9.2	35.5	(73.9)	13.6	(32.1)	
PAT	30.5	121.8	(74.9)	36.0	(15.2)	
<b>Segment Revenue</b>	<b>Q3FY23</b>	<b>Q3FY22</b>	<b>YoY (%)</b>	<b>Q1FY23</b>	<b>QoQ (%)</b>	
EPC (Construction)	183.9	296.4	(38.0)	144.8	27.0	
% Contribution	90%	71%		78%		
Energy (Power)	1.4	1.1	23.7	30.9	(95.5)	
% Contribution	1%	0%		17%		

Source: Company, ICICI Direct Research

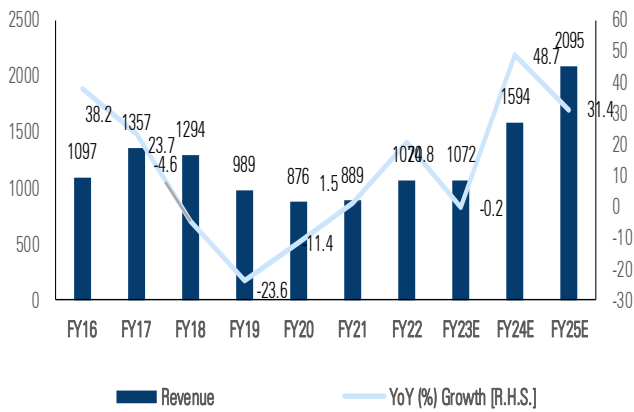
**Exhibit 2: Change in estimates**

	FY21	FY22	FY23E	FY24E	FY25E
(₹C crore)	Actual	Actual	Actual	New	New
Revenue	889	1,074	1,072	1,594	2,095
EBITDA	216	222	238	231	304
EBITDA Margin (%)	24.3	20.7	22.2	14.5	14.5
PAT	182	264	235	233	289
EPS (₹)	16.5	24.0	21.4	21.2	26.3

Source: Company, ICICI Direct Research

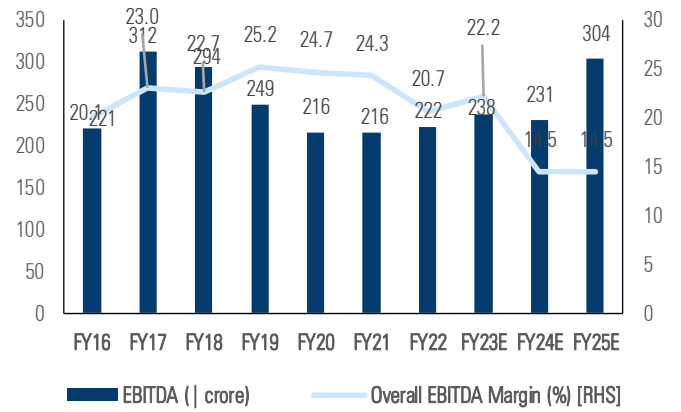
Financial story in charts:

Exhibit 3: Revenue trend...



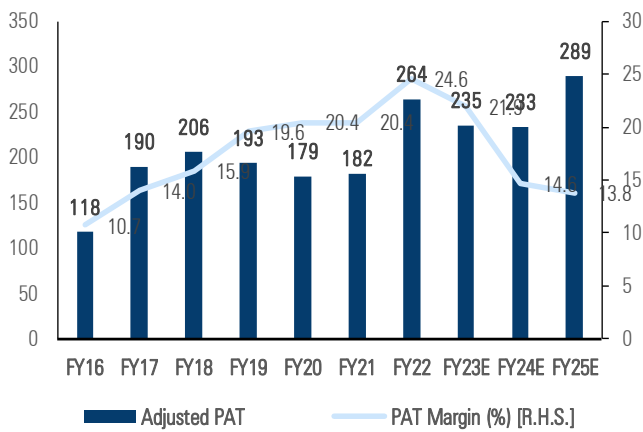
Source: ICICI Direct Research, Company

Exhibit 4: EBITDA and EBITDA margin trend



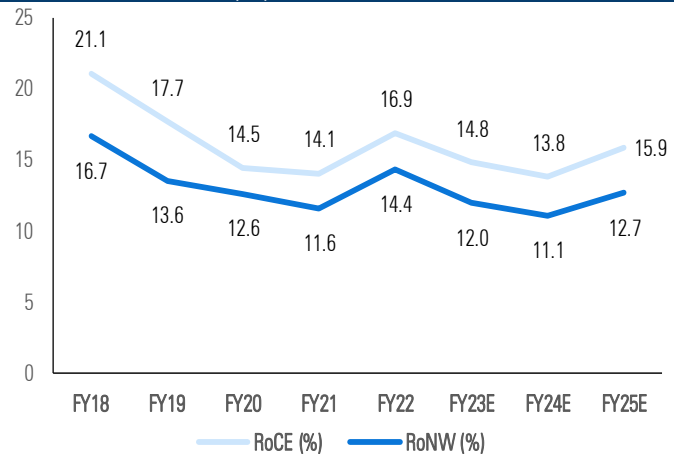
Source: ICICI Direct Research, Company

Exhibit 5: PAT and PAT margin (%) trend...



Source: Company, ICICI Direct Research

Exhibit 6: RoE, RoCE (%) trend...



Source: Company, ICICI Direct Research

## Financial Summary (Consolidated)

Exhibit 7: Profit and loss statement				
₹ crore				
(₹Crore)	FY22	FY23E	FY24E	FY25E
Net Sales	1,073.9	1,071.6	1,593.9	2,095.0
Other Operating In	-	-	-	-
<b>Total Operating I</b>	<b>1,073.9</b>	<b>1,071.6</b>	<b>1,593.9</b>	<b>2,095.0</b>
% Growth	20.8	(0.2)	48.7	31.4
Other Income	150.8	116.6	121.1	123.8
Total Revenue	1,224.6	1,188.2	1,715.0	2,218.8
Cost of materials c	767.1	723.9	1,187.4	1,560.8
Purchase of stock	-	-	-	-
Other Expenses	70.8	69.8	111.6	146.7
Total expenditure	851.7	834.0	1,362.8	1,791.2
<b>EBITDA</b>	<b>222.2</b>	<b>237.6</b>	<b>231.1</b>	<b>303.8</b>
% Growth	2.8	6.9	(2.7)	31.4
Interest	5.6	-	-	-
Depreciation	41.3	45.0	45.5	46.1
PBT	326.1	309.3	306.7	381.5
Tax	65.8	77.8	77.2	96.0
<b>PAT</b>	<b>263.9</b>	<b>235.1</b>	<b>233.2</b>	<b>289.1</b>
% Growth	45.2	(10.9)	(0.8)	24.0
EPS	24.0	21.4	21.2	26.3

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
₹ crore				
(₹Crore)	FY22	FY23E	FY24E	FY25E
Profit after Tax	263.9	235.1	233.2	289.1
Depreciation	41.3	45.0	45.5	46.1
Interest	5.6	-	-	-
Other income	(150.8)	(116.6)	(121.1)	(123.8)
Prov for Taxation	65.8	77.8	77.2	96.0
Cash Flow before WC char	225.8	241.2	234.8	307.4
Change in Working Capital	(16.7)	109.1	(241.7)	(203.7)
Taxes Paid	(58.8)	(77.8)	(77.2)	(96.0)
<b>Cashflow from Operating</b>	<b>150.3</b>	<b>272.5</b>	<b>(84.1)</b>	<b>7.7</b>
(Purchase)/Sale of Fixed A	(42.8)	17.0	(16.9)	(16.9)
(Purchase)/Sale of Investm	(381.9)	(200.0)	(50.0)	(30.0)
Other Income	-	-	-	-
<b>Cashflow from Investing</b>	<b>(424.7)</b>	<b>(183.0)</b>	<b>(66.9)</b>	<b>(46.9)</b>
Issue/(Repayment of Debt)	(40.0)	-	-	-
Changes in Minority Interes	-	-	-	-
Changes in Networth	9.6	(108.6)	(98.0)	(109.0)
Interest	(5.6)	-	-	-
Others	-	-	-	-
<b>Cashflow from Financing</b>	<b>(36.0)</b>	<b>(108.6)</b>	<b>(98.0)</b>	<b>(109.0)</b>
Changes in Cash	39.6	97.5	(127.9)	(24.4)
Opening Cash/Cash Equiv	27.8	67.4	164.9	37.0
Closing Cash/Cash Equiva	67.4	164.9	37.0	12.6

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
₹ crore				
(₹Crore)	FY22	FY23E	FY24E	FY25E
Share Capital	22.0	22.0	22.0	22.0
Reserves & Surplu	1,814.7	1,941.2	2,076.3	2,256.5
<b>Networth</b>	<b>1,836.7</b>	<b>1,963.2</b>	<b>2,098.3</b>	<b>2,278.5</b>
Total Debt	-	-	-	-
Deferred tax liabili	122.1	122.1	122.1	122.1
<b>Total Liabilities</b>	<b>2,089.9</b>	<b>2,213.9</b>	<b>2,379.8</b>	<b>2,610.1</b>
Gross Block	716.3	725.2	734.1	743.0
Acc: Depreciation	285.5	322.5	360.0	398.1
Net Block	467.2	405.2	376.5	347.4
Capital WIP	-	-	-	-
Investments/ Invest	1,095.7	1,295.7	1,345.7	1,375.7
Inventory	27.1	7.3	10.9	14.3
Sundry debtors	584.0	557.2	828.8	1,089.4
Cash and bank ba	67.4	164.9	37.0	12.6
Loans and advanc	94.9	75.0	95.6	125.7
Other Current Ass	204.9	182.2	286.9	377.1
Total current Ass	1,008.8	1,018.8	1,307.1	1,682.0
CL& Prov.	418.9	440.5	611.5	803.7
Net Current Assets	582.6	571.1	684.9	864.2
<b>Total Assets</b>	<b>2,248.4</b>	<b>2,345.7</b>	<b>2,504.5</b>	<b>2,700.8</b>

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
₹				
(Year-end March)	FY22	FY23E	FY24E	FY25E
EPS	24.0	21.4	21.2	26.3
Cash EPS	27.7	25.5	25.3	30.5
BV	167.0	178.5	190.8	207.1
DPS	2.0	7.0	9.0	10.0
Cash Per Share	26.0	29.3	32.7	36.2
<b>EBITDA Margin</b>	<b>20.7</b>	<b>22.2</b>	<b>14.5</b>	<b>14.5</b>
PBT / Net Sales	16.9	18.0	11.6	12.3
PAT Margin	24.6	21.9	14.6	13.8
Inventory days	9.2	2.5	2.5	2.5
Debtor days	198.5	189.8	189.8	189.8
Creditor days	142.3	150.0	140.0	140.0
RoE	14.4	12.0	11.1	12.7
<b>RoCE</b>	<b>16.9</b>	<b>14.8</b>	<b>13.8</b>	<b>15.9</b>
RoIC	9.0	9.3	8.0	10.2
<b>P/E</b>	<b>14.8</b>	<b>16.6</b>	<b>16.7</b>	<b>13.5</b>
EV / EBITDA	17.6	16.1	17.1	13.1
EV / Net Sales	3.7	3.6	2.5	1.9
Market Cap / Sales	3.7	3.7	2.5	1.9
Price to Book Value	2.1	2.0	1.9	1.7
Debt/EBITDA	0.0	0.0	0.0	0.0
<b>Net Debt/Equity</b>	<b>0.0</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.0</b>
Current Ratio	2.2	1.9	2.0	2.0
Quick Ratio	2.1	1.8	2.0	2.0

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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