

Healthy growth outlook...

About the stock: Techno Electric Engineering Company (TEEC) is one of the leading power-infrastructure companies engaged in two primary business segments; EPC (construction), renewable power generation (wind power)

EPC Business: Contributed ~92% to FY23 revenue, generated excellent RoCE of 50-75% over the past five years. **Wind power:** TEEC owns ~21 MW of wind power generation capacity

Q4FY23 Results: TEEC reported a weak set of Q4FY23 numbers.

- Consolidated revenues came in at ₹ 313 crore, grew by 2.5% YoY
- EBITDA came in at ₹ 3.1 crore, de-grew by 91.6% YoY with margins at 1%, contracting 1115bps YoY
- Consequently, PAT de-grew by 97.5% YoY to ₹ 1.1 crore

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 ₹ 480 i.e. 20x 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 ~50.1%, 54.6%, 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 ₹ 3700



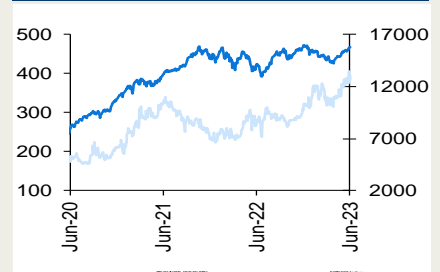
Particulars

Particular	Amount
Market Capitalization	₹4338 Crore
Total Debt (FY23)	₹0 Crore
Cash and Inv (FY23)	₹1373 Crore
EV (FY23)	₹3027 Crore
52 week H/L (₹)	409 / 231
Equity capital	₹21.5 Crore
Face value (₹)	10.0

Shareholding pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promotr	60.2	60.2	61.2	61.5
FII	1.4	1.6	1.7	2.1
DII	27.3	26.8	26.0	25.0
Others	11.1	11.4	11.2	11.4

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	FY23	5-Year CAGR (FY18-FY23E)	FY24E	FY25E	2-Year CAGR (FY23-25E)
Revenue (₹crore)	889.2	999.2	966.6	-5.7%	1,618.6	2,176.8	50.1%
EBITDA (₹crore)	216.1	158.0	118.4	-16.6%	210.4	283.0	54.6%
EBITDA margin (%)	24.3	15.8	12.3		13.0	13.0	
Net Profit (₹crore)	181.8	243.0	128.1	-9.0%	208.0	262.3	43.1%
EPS (₹)	16.5	22.1	11.6		18.9	23.8	
P/E (x)	23.3	17.4	33.1		20.4	16.1	
Price / Book (x)	2.7	2.3	2.3		2.2	2.0	
EV/EBITDA (x)	17.2	21.5	25.6		14.0	10.4	
RoCE (%)	14.1	15.6	9.7		13.8	16.2	
RoE (%)	11.6	13.2	7.0		10.7	12.5	

Key takeaways of recent quarter & conference call highlights

Q4FY23 Results:

- Techno Electric Engineering (TEEC) reported consolidated revenues at ₹ 313 crore grew by 2.5% on YoY basis. It grew QoQ basis by 68.5%. EPC, Others (Wind Power) and unallocable contributed ~92.3%, 0.3% and 7.4% respectively. In FY23 revenue came at ₹ 829.5 crores which de-grew by 17% on YoY basis
- For Q4FY23, EPC revenue grew marginally by 0.6% YoY basis to ₹309.8 crore and grew by 68.5% QoQ basis. Others (Energy) segment revenue de-grew by 24.4% YoY basis to ₹ 0.9 crore and de-grew by 35% on QoQ basis. In FY23 EPC revenue came at ₹819 crores which de-grew by 17.5%.
- Absolute EBITDA came in at ₹ 3.1 crore de-grew by 91.6% on YoY basis. Overall EBITDA margin came in at 1%, contracted by 1115bps on YoY basis. EPC segment reported EBIT margins of 12.6% (Vs. 13.1% in Q4FY22) and Others (Energy) and unallocated segments reported EBIT loss. In FY23 EBITDA came at ₹82.7 crores de-grew by 47% on YoY with EBITDA margin of 10% vs 15.8% in FY22.
- Consequently, PAT came in at ₹ 1.1 crore which de-grew by 97.5% on YoY basis despite sharp rise in other income by 238% YoY to ₹22.7 crores. In FY23 PAT came at ₹92.6 crores de-grew by 62% YoY

Q4FY23 Earnings Conference Call highlights

- The company's current order book is at ₹3,800 crore and for FY24, the management indicated ₹4,000 crore order inflows, company is already L1 of ₹1250 crores for smart metering and T&D. Also for FY24E management expects ~₹1700 crores revenues, out of that ₹1300 crores from EPC business, ~₹300-400 crores from data centre with EBITDA margins of ~12.5-13%. Also Techno Electric's management is confident about doubling its revenues and profit in next three years as worst is behind for company.
- Techno Electric's Chennai based first datacentre's first phase should be operational by October 2023. Company is finding a JV partner for the same and having a serious talk with three large players based out of the US or Singapore and expects it to get finalised soon. Also company is planning to setup additional 2 data centres, one is located in Kolkata and other ones' discussions are going on.
- Out of 130 MW wind power assets the company sold its 109 MW wind power assets during the quarter. For 3.6 MW wind assets for which sale agreements has not been executed till 31 March 2023, the move is in line with the company's strategy to exit from non-core businesses and keep focusing on expanding their international presence and becoming a significant EPC player.
- As on 31st Mar 2023 Techno Electric has receivables from different projects like Afghanistan, Bengal Energy Limited, differential tariff revision and differential rate of renewable energy certificates (REC) is at ₹161.8 crores. Company is hoping, within one year all the receivables will get recover from projects.
- Company is expert in data centre EPC business for 3rd party data centres by offering all kind of electro-mechanical support, reliability of power

supply, 2 grid and 2 backups, storage solutions, safety solution, highly secured solutions.

- TEEC's balance sheet continues to remain healthy with zero debt and ₹1450 crores of cash balance.

Exhibit 1: Variance Analysis

Year	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Income from Operation	313.0	305.2	2.5	185.3	68.9	
Other Income	22.7	6.7	238.8	20.0	13.7	
Cost of materials consumed	271.3	192.3	41.1	142.4	90.5	
Changes in inventories of finished goods & WIP	(14.3)	42.4	(133.8)	(5.1)	179.3	
Employee cost	13.8	8.1	69.6	9.8	40.3	
Other expenses	39.1	25.3	54.3	14.8	164.4	
EBITDA	3.1	37.1	(91.6)	23.4	(86.6)	Lower than expected execution of the ₹000 crore backlog significantly impacted absolute EBITDA
EBITDA Margin (%)	1.0	12.1	-1115 bps	12.6	-1161 bps	
Depreciation	2.0	1.9	2.1	1.9	2.6	
Interest	6.3	1.7	262.1	1.6		
PBT	17.5	40.1	(56.3)	39.7	(55.9)	
Taxes	16.4	(4.3)	(482.0)	9.2	77.7	
PAT	1.1	44.4	(97.5)	30.5	(96.4)	
Segment Revenue	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	
EPC (Construction)	309.8	308.0	0.6	183.9	68.5	
% Contribution	92%	99%		90%		
Energy (Power)	0.9	1.2	(24.4)	1.4	(35.0)	
% Contribution	0%	0%		1%		
Corporate/unallocated	25.0	2.7	817.3	20.0	25.3	
% Contribution	7%	1%		10%		

Source: Company, ICICI Direct Research

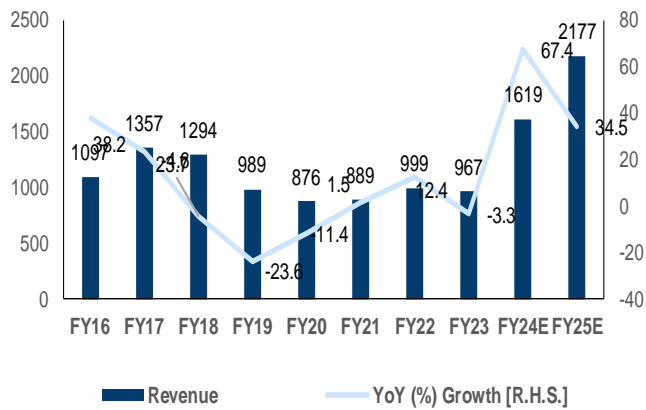
Exhibit 2: Change in estimates

	FY21	FY22	FY23	FY24E	FY25E
(₹Crore)	Actual	Actual	Actual	New	New
Revenue	889	999	967	1,619	2,177
EBITDA	216	158	118	210	283
EBITDA Margin (%)	24.3	15.8	12.3	13.0	13.0
PAT	182	243	128	208	262
EPS (₹)	16.5	22.1	11.6	18.9	23.8

Source: Company, ICICI Direct Research

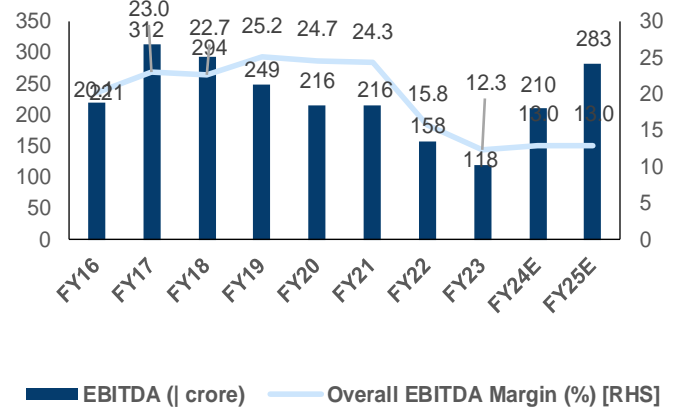
Financial story in charts:

Exhibit 3: Revenue trend...



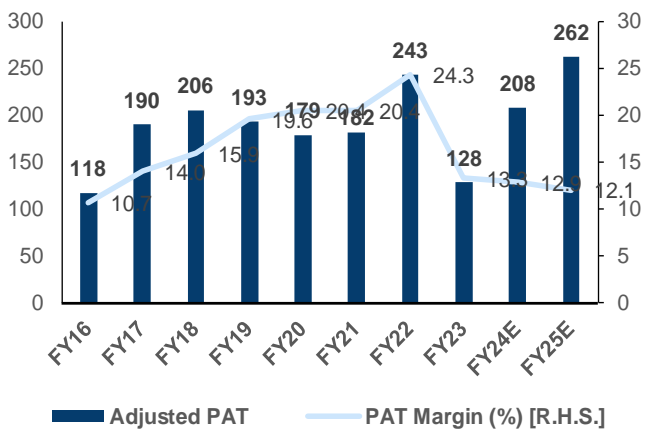
Source: ICICI Direct Research, Company

Exhibit 4: EBITDA and EBITDA margin trend



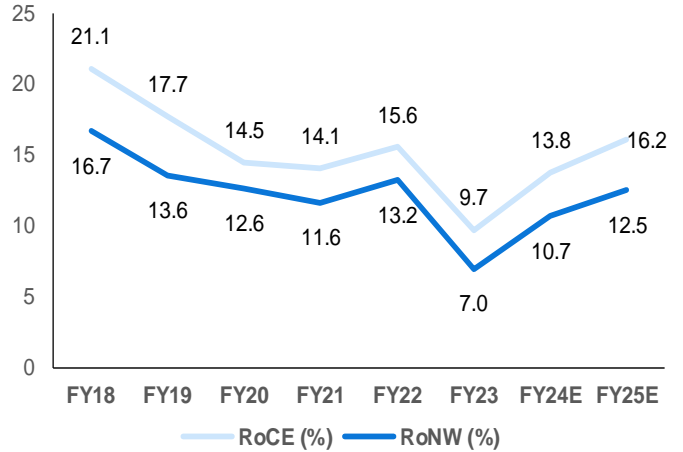
Source: ICICI Direct Research, Company

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	FY23	FY24E	FY25E
Net Sales	999.2	966.6	1,618.6	2,176.8
Other Operating In	-	-	-	-
Total Operating I	999.2	966.6	1,618.6	2,176.8
% Growth	12.4	(3.3)	67.4	34.5
Other Income	154.4	74.3	75.0	75.0
Total Revenue	1,153.5	1,040.9	1,693.6	2,251.8
Cost of materials c	767.1	766.7	1,230.1	1,654.3
Purchase of stock	-	-	-	-
Other Expenses	61.0	73.6	113.3	152.4
Total expenditure	841.2	848.2	1,408.2	1,893.8
EBITDA	158.0	118.4	210.4	283.0
% Growth	(26.9)	(25.0)	77.6	34.5
Interest	6.4	10.7	-	-
Depreciation	7.4	7.2	7.4	7.4
PBT	298.6	174.9	278.0	350.6
Tax	59.2	46.7	70.0	88.2
PAT	243.0	128.1	208.0	262.3
% Growth	33.7	(47.3)	62.4	26.1
EPS	22.1	11.6	18.9	23.8

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement ₹ crore

(₹Crore)	FY22	FY23	FY24E	FY25E
Profit after Tax	243.0	128.1	208.0	262.3
Depreciation	7.4	7.2	7.4	7.4
Interest	6.4	10.7	-	-
Other income	(154.4)	(74.3)	(75.0)	(75.0)
Prov for Taxation	59.2	46.7	70.0	88.2
Cash Flow before WC char	161.7	118.4	210.4	283.0
Change in Working Capital	(14.1)	(136.5)	30.1	(215.4)
Taxes Paid	(52.2)	(96.4)	(70.0)	(88.2)
Cashflow from Operating	95.4	(114.5)	170.6	(20.6)
(Purchase)/Sale of Fixed A	(74.2)	477.0	0.0	(0.0)
(Purchase)/Sale of Investm	73.0	(61.3)	-	-
Other Income	-	-	-	-
Cashflow from Investing	(1.2)	415.7	0.0	(0.0)
Issue/(Repayment of Debt)	(40.0)	-	-	-
Changes in Minority Interes	-	-	-	-
Changes in Networth	30.5	(129.9)	(98.0)	(109.0)
Interest	(6.4)	(10.7)	-	-
Others	-	-	-	-
Cashflow from Financing	(15.9)	(140.6)	(98.0)	(109.0)
Changes in Cash	272.0	371.4	88.5	(18.3)
Opening Cash/Cash Equiv	668.2	940.2	1,311.7	1,400.1
Closing Cash/Cash Equiva	940.2	1,311.7	1,400.1	1,381.8

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet ₹ crore

(₹Crore)	FY22	FY23	FY24E	FY25E
Share Capital	22.0	21.5	21.5	21.5
Reserves & Surplu	1,814.7	1,813.4	1,923.4	2,076.8
Networth	1,836.7	1,834.9	1,945.0	2,098.3
Total Debt	-	-	-	-
Deferred tax liabili	122.1	72.4	72.4	72.4
Total Liabilities	2,088.6	2,091.6	2,179.3	2,388.4
Gross Block	716.3	308.1	308.1	308.1
Acc: Depreciation	251.7	259.0	266.4	273.8
Net Block	532.4	49.2	41.8	34.4
Capital WIP	-	-	-	-
Investments/ Invest	0.5	61.7	61.7	61.7
Inventory	27.1	86.5	11.1	14.9
Sundry debtors	584.0	641.3	841.7	1,131.9
Cash and bank ba	940.2	1,311.7	1,400.1	1,381.8
Loans and advanc	94.9	142.3	97.1	130.6
Other Current Ass	204.9	322.4	291.3	391.8
Total current Ass	1,881.5	2,542.8	2,689.9	3,116.3
CL& Prov.	420.1	555.5	626.4	840.5
Net Current Assets	1,452.8	1,960.8	2,019.1	2,216.1
Total Assets	2,088.6	2,091.6	2,179.3	2,388.4

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios ₹

(Year-end March)	FY22	FY23	FY24E	FY25E
EPS	22.1	11.6	18.9	23.8
Cash EPS	22.8	12.3	19.6	24.5
BV	167.0	166.8	176.8	190.8
DPS	2.0	7.0	9.0	10.0
Cash Per Share	22.9	23.5	24.2	24.9
EBITDA Margin	15.8	12.3	13.0	13.0
PBT / Net Sales	15.1	11.5	12.5	12.7
PAT Margin	24.3	13.3	12.9	12.1
Inventory days	9.9	32.7	2.5	2.5
Debtor days	213.3	242.2	189.8	189.8
Creditor days	153.0	207.7	140.0	140.0
RoE	13.2	7.0	10.7	12.5
RoCE	15.6	9.7	13.8	16.2
RoIC	15.8	14.9	28.3	29.8
P/E	17.4	33.1	20.4	16.1
EV / EBITDA	21.5	25.6	14.0	10.4
EV / Net Sales	3.4	3.1	1.8	1.4
Market Cap / Sales	4.3	4.5	2.7	2.0
Price to Book Value	2.3	2.3	2.2	2.0
Debt/EBITDA	0.0	0.0	0.0	0.0
Net Debt / Equity	-0.5	-0.7	-0.7	-0.7
Current Ratio	2.2	2.1	2.0	2.0
Quick Ratio	2.1	2.0	2.0	2.0

Source: Company, ICICI Direct Research

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