TECHNO ELECTRIC & ENGINEERING COMPANY LTD (TECHNO)

Scrip Code	Industry	CMP	Recommendation	Target	Time Horizon
TECELEEQNR	ENGINEERING	Rs 372.4	Buy at CMP and add on dips Rs 325 – Rs 340	Rs 425 & Rs 467	2-3 quarters

Price Chart

Stock Details	
BSE Code	533281
NSE Code	TECHNO
Bloomberg	TEEC IN
Price (Rs) as on Dec 23, 2014	372.4
Equity Capital (Rs Cr)	11.4
Face Value (Rs)	2
Eq. Shares O/s (cr)	5.7
Market Cap (Rs .)	1993.7
Book Value (Rs)	146.6
Avg. Volume (52 Week)	41248
52 wk H/L (Rs)	(375/103)
Shareholding Pattern	
(As on Dec 31, 2013)	% Holding
Promoters	57.98
Institutions	7.15
Non Institutions	34.87
Total	100.0

Siji A Philip
Research Analyst – Banks, Capital Goods, Power, Midcaps
siji.philip@hdfcsec.com

Incorporated in 1963, Techno Electric and Engineering Company Limited (Techno) is headquartered in Kolkata. Historically, Techno has been an EPC company present in the entire value chain of generation, transmission and distribution. The company's scope of work includes turnkey projects ranging from complete power generating plants to system packages for plant. It also does EPC work for electrical system across generation, transmission & distribution up to 765 KV and tailored power solutions for industries such as aluminum, petrochemicals etc. It has completed and delivered 280+ projects in existence (up to 31 March 2014). It is also Wind Energy Business and BOOT & BOOM segments.

Key Rationale:

- Impressive client list & Robust order book
- EPC revenues to be led by the substation market
- Huge Opportunity size and latent Demand in Transmission sector
- Wind Power – diversification play to offset cyclicality in EPC business
- BOOT in transmission could open up annuity revenues for the company

Outlook & Conclusion:

In a short span of four years, the Company has established leadership in the 500-plus kV space; with a formidable 60 per cent share in the value-added 765 kV segment Company expects to reach a turnover of Rs 2000 cr in the next five years. Company has an almost leadership position in EPC business of the transmission segment with most larger players like ABB, Siemens, BHEL concentrating more on the equipment/product part of the segment. Company expects its SEB business to do well. Since the orders are mostly on bilateral platform receiving payments on time would not be an issue.

Techno is also focusing on improving its international revenues (which is at present just 4%). This would also help in improving margins of the company as typically foreign orders have relatively higher margins than domestic ones. Also, if the company is able to find a buyer for its Wind Energy business which is not getting the desired momentum due to regulatory hurdles, ROEs of the company can improve in the future.

We feel Techno could be one of the major beneficiaries of the pick-up in the EPC demand in the power sector. **Investors could look to buy the stock at CMP and average at band of Rs 325 –Rs 340 (11.5-12xFY16E) for sequential targets of Rs 425 and Rs 467 (15xFY16E EPS - 16.5xFY16E EPS) in the next 2-3 quarters**.

Financial Summary

Particulars	FY11	FY12	FY13	FY14	FY15 (E)	FY16 (E)
Total Operating Income	716.6	819.9	700.1	708.5	752.2	967.9
Operating Profit	165.2	224.3	234.7	192.8	241.7	307.9
OPM%	23.1%	27.4%	33.5%	27.2%	32.1%	31.8%
Other Income	27.7	22.5	20.6	12.0	18.0	18.0
Adjusted PAT	112.0	126.3	122.5	87.7	127.8	161.6
PATM%	15.0%	15.0%	17.0%	12.2%	16.6%	16.4%
EPS	19.61	22.11	21.46	15.36	22.39	28.30
PE (x)	19.0	16.8	17.4	24.2	16.6	13.2

(Source: Company, HDFC sec Research)

Company Overview

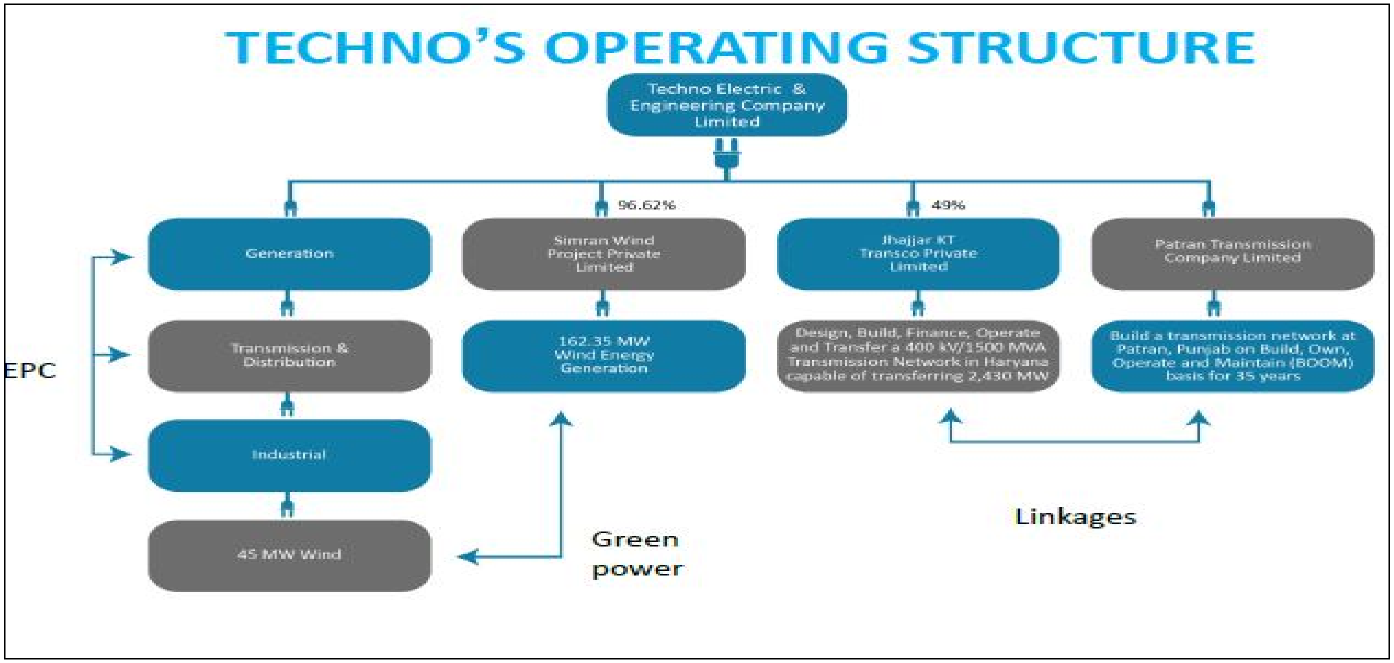
Techno Electric and Engineering Co (Techno) is power EPC Company headquartered at Kolkatta, operating across the value chain, viz., generation, transmission and distribution over the past 5 decades. The major business segments comprise engineering, procurement and construction (EPC) for the power sector, transmission BOT projects and power generation (wind power). As on Mar 2014, the company has one subsidiary company.

The company's scope of work includes turnkey projects ranging from complete power generating plants to system packages for plant. It also does EPC work for electrical system across generation, transmission & distribution up to 765 KV and tailored power solutions for industries such as aluminum, petrochemicals etc.

The company predominantly caters to the domestic market. It has recently forayed into African region (EPC segment). The company has wind power capacity of 207.35MW located in Tamil Nadu and Karnataka. It also has one operational BOT project (Haryana) and one under construction (Punjab). It has an impressive clientele with customers in central, state utilities and industries.

Company's businesses are divided into three main segments: EPC, Green Power, Boot & Boom Projects. The Company possesses a rich experience in the execution of more than 280 projects pan-India leading upto FY14. The Company employs 400 professionals (engineering, commercial, graduates and post graduates); the core engineering team possessed an average experience of more than 25 years as on March 31, 2014.

Business:



EPC

The Company's forte is the engineering, procurement and construction (EPC) business having provided solutions to nearly half of India's installed thermal and interregional transmission capacity and catered to customers like NHPC, NTPC, the Power Grid Corporation and BHEL. The cash-accretive business has made it possible for the Company to generate surpluses that have been progressively deployed in building capital assets with attractive annuity revenue. In FY14, this segment attributed to nearly 80% of revenues with revenues of Rs 571 cr and 31% of EBITDA. Order Book as on Sep 2014 stood at Rs 1900 cr.

	Techno - EPC Business	
Power	**T&D**	**Industrial**
Generation	EHV substations upto 765 kV	Power distribution systems to power intensive industries
Captive Power Plants		Offsite piping systems
Offers turnkey solutions	Distribution systems management (APDRP)	Naptha and diesel system for turbine based power plant
Balance of plants		Oil handling plant for power station and process industries
	Rajiv Gandhi Gramin Vidyutikaran Yojna	Water and allied systems
		Fire protection systems
		Plant electrical & Illumination systems

Green Power

The second largest revenue driver of the company is Green Power which attributed to nearly 20% of revenues and 69% of EBITDA. In 2009, the Company diversified into the generation of green power (renewable energy). This was a decisive extension for the Company – allowing it transcend from merely commissioning projects for customers to commissioning a project for itself.

The extension to green power generation was made with the objective to extend from services provided for customers to one where the Company would be able to create an asset on its books concurrent to generating an annuity income. Besides, this business was accompanied by the option to exit through asset sale.

The Company expanded into the renewable energy generation sphere through the acquisition of two wind mill companies in 2009 namely Simran Wind Project Private Limited (Simran) and Super Wind Project Limited. Through its IFC funded subsidiary Simran Wind Project Pvt. Ltd., the Company further set up a 111.9 MW wind farm in Tamil Nadu.

The Company is engaged in power-generation through wind turbine generators (WTGs) at various locations in Tamil Nadu and Karnataka with a total aggregate-rated generating capacity of 3446 million units (FY14).

Boot & Boom Projects

In 2010, the Company leveraged its rich transmission knowledge to maintain a transmission asset on its books and expanded into BOOT (Build, Own, Operate and Transfer) and BOOM (Build, Own, Operate and Maintain) projects with the objective to generate one-off EPC revenues during project commissioning while also deriving annuity income from project maintenance.

The BOOT and BOOM projects in the country's transmission sector were proposed only in the last few years when it became increasingly evident that specialised vendors were required to own, create and maintain modern transmission networks across a concession period with the objective to deliver a first rate network for the benefit of the state and consumers.

Going forward, the Company expects to bid for similar projects having annuity O&M revenues which can if required be securitised while utilising its EPC competence and being engaged as the maintenance partner. The Company expects to add a transmission line annually to its portfolio in Rajasthan, Uttar Pradesh, Maharashtra and Tamil Nadu with the objective to have a portfolio of five projects by the end of the Twelfth Five Year Plan (FY17).

Shareholding pattern

Particulars (%)	Sep-13	Dec-13	Mar-14	June-14	Sep-14
Promoters	54.9	54.9	59.3	58.0	58.0
FIIs	2.0	2.0	2.0	5.9	5.5
MFs	1.3	1.3	1.3	1.5	7.1
Non-promoter (Others)	41.8	41.8	37.4	34.6	29.4
Total	100.0	100.0	100.0	100.0	100.0

Promoter's stake stood at 58% as on Sep 2014. FIIs have increased their stake from 1.3% in Sep 13 to 5.5% in Sep 14. MFs too have raised their stake to 7.1% from 1.3% earlier. Among the top shareholders holding more than 1% in the company, include JP Financial Services 6.9%, Noble Communications 6.8%, SBI Emerging Business Fund 5.3% among others.

Industry Overview

The Indian electricity network, which today is the world's largest synchronised grid, is becoming increasingly complex day by day. Doubling of power generation capacity, up-gradation from 400 kV to 765 kV AC level, installation of several large scale HVDC systems to improve the bulk power flow across the different regions and the introduction of renewable power generation to the Grid have made the situation more challenging than ever before. Thus, it needs a high-end technological solution for network protection, and high operational performance for increased power flow, efficiency and reliability.

The Indian power generation sector showed a mixed picture. On the one hand, the country has added 54,964 MW during the Eleventh Five Year Plan period; the result being that India now possesses a consolidated generation capacity of nearly 250,000 MW. The upshot of this capacity accretion is that the peak gap between power supply and demand has begun to trend downwards; with the Indian non-peak power shortage of around 3 per cent being one of the lowest seen thus far. However, South India is the only exception where there is still a significant power shortage.

Even as there are aspects to be pleased about, there are reasons to be disappointed. For instance, 22,000 MW of fresh generation capacity was fully installed but could not generate power due to non-operational reasons. Besides, the country's plant load factor declined from an erstwhile level of 70 to 60 per cent. The result is that it became increasingly evident that while the country invested precious resources in fresh power generation, there has been a corresponding need to enhance efficient asset utilisation.

Last couple of years has been dull for the transmission sector. Overall economic sentiment coupled with low GDP growth impacted India's power cycle, resulting in contraction of the T&D market. For the first time, since 2003, the T&D Market in India shrank by 9-10% in FY13 due to fall in demand, led by low investment in the power segment, in industry and infrastructure and impacted by delays in project execution by the customers.

Accumulated State Electricity Boards' (SEBs) losses of Rs. 2.35 trillion has put deep stress across the Generation and T&D value chain, deeply impacting the cash flow of the GENCOs and T&D equipment suppliers. Consequently, several private Independent Power Projects (IPPs) are in financial trouble and are, therefore, reluctant to invest in new power projects.

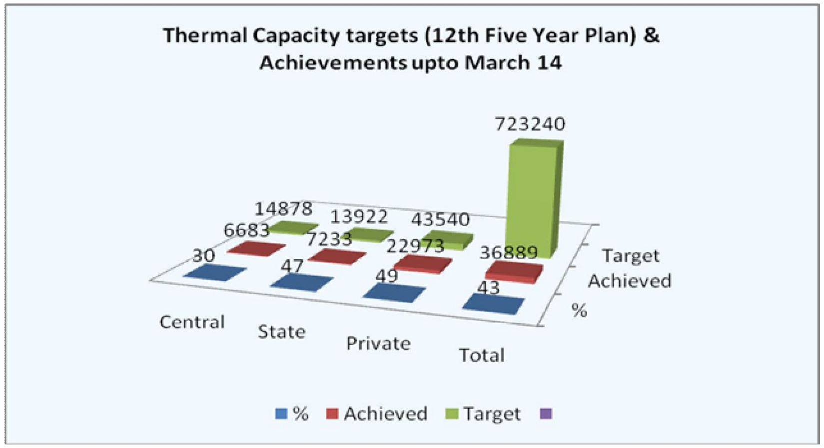
Lack of fuel supply, issues of land acquisition and delayed environmental clearances have put additional stress on the power sector. About 50GW of Power Generation Capacity (~24% of national installed capacity) is stranded due to fuel supply issues and lack of demand from SEBs. Thus, the investment climate, in power sector, continues to be bleak and uncertain. Most of the new projects are either delayed or shelved.

Generation capacity has gone up by ~ 50% in the last five years whereas transmission has gone up only 30% during this period. Thus, it creates opportunities for the Company for the year 2013-14 and beyond. Government of India has also finalised the financial restructuring plan (FRP) to help the SEBs to restructure their financial debts and clean up their balance sheets. Eight major SEBs have agreed, in principle, to go for FRP in 2013-14.

Financial Restructuring Plan (FRP) is being implemented by several States. Signs of new investments and improved cash flows in some SEBs are visible. FRP is expected to create additional direct demand for T&D in SEBs and at the same time also create indirect demands in IPPs and Industry.

A very strong pick-up in transmission capacity addition has started to ease T&D grid congestion. However, congestion is still high, offering a natural fillip to growth in transmission beyond generation growth. The growth is best captured through transformer companies, especially MNCs, which would benefit from (1) a shift in ordering towards high-technology solutions (20-30% of awards) and (2) near-term opportunity for grid protection (US$1.5 bn)

Capacity additions in transmission (lines, transformers) doubled over April-August 2014. The pick-up was strong and did not benefit from private-sector participation (growth was led mainly by the Center). The strong growth helped to reduce T&D congestion in the system (down to 13% from 16% for power exchanges). About 60 GW of commissioned and contracted power capacity is not being used. The lack of evacuation infrastructure is one of the main contributors to this problem. Investments in T&D over the past few years have not kept pace with investments in generation, with deviations being more for transmission lines and distribution.



Transmission lines added		
Voltage level	April '12-March '13	April '13-March '14
+/-500 kV HVDC	0	0
765 kV	1209	4637
400 kV	11361	7777
220 kV	4537	4334
All India	17107	16748

The EPC nature of the work of transmission-line companies restricts their ability to grow in line with the sectoral opportunity (need visibility to invest in design and project management; labor availability is a constraint). Essentially, the limit on pace of expansion for them is not put by manufacturing capacities. They would remain plays on improving business returns and a secondary play on sectoral scale-up. However the risk- reward ratio remains high in the EPC segment as it is less capital intensive.

Investment Rationale

Impressive client list & Robust order book

Techno has helped in building nearly 50% of India's National Power Grid. It has historically engaged with more than 50% NTPC projects (various capacities) Multi-year engagements with Power Grid Corporation, BHEL, Indian Oil, NTPC and Hindalco. It has aAssociated with power distribution solutions for major oil refineries (Bina, Paradip, Bhatinda, Panipat among others) and aluminium smelters (Hindalco, Nalco among others).

Among others the client list also includes ABB, Alstom, APTransco, Assam State Electricity Board, Bengal Energy, Bharat Aluminium Company, BHEL, Bharat Oman Refineries, Calcutta Electricity Supply Corporation, Damodar Valley Corporation, Delhi Vidyut Board, Electrosteel Castings, General Electric Technical Services, USA, Haldia Petrochemicals, Haryana Power Generation Corporation, Hindalco Industries, Indian Oil Corporation, Indian Petrochemicals, Lanco Industries, Maharashtra State Electricity Board, National Aluminium Company, National Hydro Electric Power Corp, North Eastern Electric Power, Orissa, PGCIL, Vedanta Aluminium etc.

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 shore 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. As on September 2014, Order book of the company stood at Rs 1900 cr (2.7x company's FY14 sales).

Order Book (As on Sep 14)	Rs	%
Bihar SEB	385	20.2
PGCIL	285	15.0
Bihar State Power Transmission	275	14.5
Patran Transmission	175	9.2
APTRANSCO, Hyderabad	165	8.7
NTPC	135	7.1
Meja Urga Nigam Pvt	100	5.3
MCC PTA India	87	4.6
Others	43	2.3
Total A	1650	86.8
Projects where L1		
Rajasthan Rajya Vidyut Prasaran Nigam	150	7.9
PGCIL - 400/220 kv Mathura Substation	100	5.3
Total B	1900	100

EPC revenues to be led by the substation market

Techno's revenues are mainly driven by EPC business and constituted 80% of FY14 revenues. It derives a large portion of it from execution of substation orders. It has executed more than 250 substation orders over the past three decades and has strong execution capability. It has a market leadership with almost 60% share in the substation EPC market.

EPC (Rs cr)	FY11	FY12	FY13	FY14
Revenues	648.8	704.1	515.9	570.5
EBITDA	100.6	108.1	57.3	60.2
PAT	73.6	82.9	39.2	50.1
Cash Surplus	74.5	83.7	40.0	51.0
ROCE %	8.9	9.0	5.3	6.2

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. Techno further plans to bid for more 765k kv projects as compared to the crowded 400 kv space.

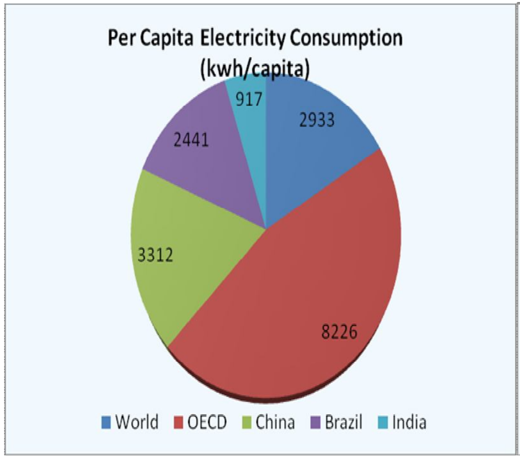
Over the past 2-3 years company has been able to sustain strong order inflow inspite of the capex environment in T&D capex being muted because of its strong execution capability and shift in focus towards higher rating (765 kVA) which has witnessed better ordering and lower competition. Order inflow momentum is likely to sustain in the coming months with more than doubling of substation spend by PGCIL expected and also Techno's foray into international markets (Bangladesh, Middle East, African countries). Also company is expecting more traction from SEB orders and the pace of ordering to improve in FY16.

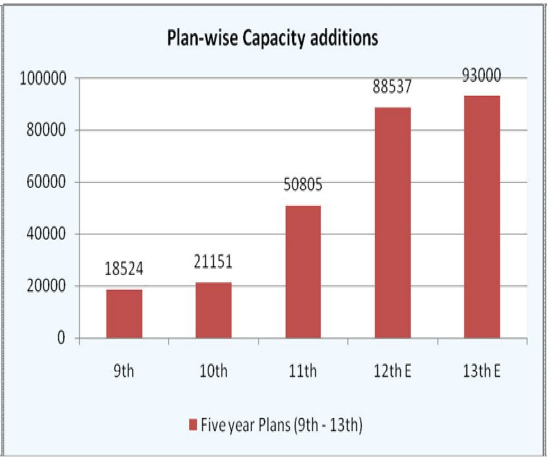
Company plans to increase its penetration in international markets and at present is active in countries like Bangladesh. At present international markets comprise ~4% of revenues. International orders would typically have higher margins than domestic ones.

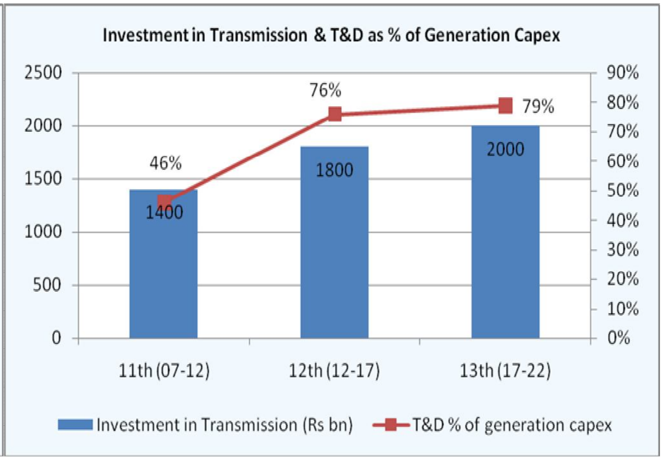
Huge Opportunity size and latent Demand in Transmission sector

For long, India has suffered from power deficit which leaves a huge opportunity in power generation and transmission & distribution sector in the country as country's per capita electricity consumption at 917 kwh is much below the world average of 2933 kwh.

While the Indian government has undertaken massive expansion plans in the power sector in the last decade capacity additions have fallen short of targets. India has added ~50,000 MW in the 11th Plan (2007-12). It plans to add ~88,000 and ~93000 MW in the 12th (2012-2017) and 13th (2017–22) Plan Period respectively. As on July 2014, installed capacity in India stood at 250,257 MW. However without robust transmission and distribution network, addition to generation capacity is of little use. Typically, India has underinvested in T&D sector compared to the generation sector. In the 11th plan Rs 1.4 tn was spent which has been increased to Rs 1.8 tn and Rs 2 tn respectively in the 12th Year Plan and 13th Year Plan to supplement the addition in generation capacity.







Wind Power – diversification play to earn benefits

Techno in an effort to diversify from cyclical EPC contract business towards secured stream of revenue had invested into the wind power segment. In 2009, it acquired Super Wind Project from Suzlon Energy's promoter company (45MW for ~Rs. 2.5bn). Similarly, Techno has invested in wind power assets through Simran Wind Project which currently has a wind power capacity of 162.35 MW (50.45 MW capacity bought and 111 MW capacity added later). In 2011, IFC (arm of World Bank) invested USD 5mn for a 3.38% stake in Simran Wind Project valuing it at ~ USD 150mn. While FY14 revenue contracted due to evacuation issues in Tamil Nadu, this is likely to o be a temporary issue and revenue stream could stabilize going forward. With low RoE profile, delayed receivables and lack of policy level clarity from the government, Techno has decided to go slow on further investments in this segment.

Green Power (Rs cr)	FY11	FY12	FY13	FY14
Revenues	67.8	115.8	184.2	138.0
EBITDA	64.6	111.5	177.3	132.4
PAT	10.7	19.5	63.5	33.8
Cash generated	40.6	74.7	128.2	99.5
ROCE %	6.3	7.1	10.0	6.5
Units generated (in mn)	2025.3	2912.8	4718.9	3446.0
Realisation /unit	3.35	3.98	3.9	4

Wind power is currently just 8.5% of Indian power capacity. Plans are to commission 6000-8000 MW have to be commissioned annually. By 2022, Government is targeting 100 GW capacities (21,136 MW installed capacity at present).

Besides the benefits resulting from lower tax benefits to the company's bottom-line, Techno stands to benefit from Renewable Energy Certificates (REC), Generation Based Incentives (GBI) and CER (Carbon Emission Receipts) income going forward. CERs at present are illiquid as the UN Treaty has expired. Talks are on to renew it but the timing is uncertain.

1000 units of green electricity sold generate one REC which can be sold in the Power Exchange with a floor price of Rs 1,500 and forbearance price of Rs 3,300. Techno sold 123439 RECs in FY14 at an average realization of Rs 1500 each.

Under Generation based incentives (GBI) Rs 0.5/unit produced available to wind power producers over base tariff upto a maximum of Rs 62 lakh/MW upto a period 10 years from commercial operations. Techno had earned a total of Rs 9.5cr in FY14 which is attributable to GBI. Projects in developing countries can earn Certified Emission Reduction credits (CERs) which can be sold to developed countries to meet their emission reduction targets. Techno is entitled to 325000 CERs annually.

Given the regulatory hurdles in the wind energy segment and delay in receivables, company may opt out of this business if it gets a good price for this business. This would subsequently lead to an improvement in the ROE of the company. Till the segment is divested, it provides a buffer or hedge to the cyclicality of EPC business as is proved from FY13 and FY14 numbers. If the divestment gets delayed, the management is looking forward to sell some portion of power in Tamilnadu to private parties, which could result in higher realization and faster recoiveries.

BOOT in transmission could open up annuity revenues for the company

Techno has also diversified into transmission BOOT assets. The company has invested through a 51:49 JV with Kalpataru Power in a transmission project (Rs. 4.4bn project value) in Haryana with Techno executing the substation EPC portion of the order. The company is currently executing the Patran Transmission project (project value of Rs. 2bn) which is expected to be completed by June 2016. Techno is positive regarding the prospects of the transmission BOT model and expects to add a transmission line annually to its portfolio in Rajasthan, Uttar Pradesh, Maharashtra and Tamil Nadu.

BOOT segment is an extension of EPC capability - leveraged knowledge; extended from one segment to another. Competitiveness has translated into a higher strike rate in bagging projects. There has been increased global interest in the business model post BOT initiation by the company.

At present company is not consolidating Jhajjar & Patran into its books as these are carried out in SPVs and would make balance sheet weighed down by interest and depreciation costs.

Rs in cr	Jhajjar	Patran
Project cost	444	200
Equity Stake of Techno %	49%	100%
Equity stake of partners and their names	Kalpataru group– 51%	-
Equity invested by Techno so far	37.6	21.5
Annuity p.a.receivable by SPV	54	31.8
Operation and maintenance revenues receivable by Techno p.a.	6 cr	2 cr
Concession Period	25 yrs (+extendable by 10 yrs)	35 years
Amount spent till Mar 2014	444	21
IRR of the project	16%	14%

Techno has executed EPC works of ~Rs.200 cr in Jhajjar project and would execute EPC works of Rs.175 cr in Patran project which was/would be accounted in its books as income.

Quarterly Review

For Q2FY15, company reported 22.7% y-o-y and 12.8% q-o-q jump in revenues to Rs 203.8 cr. Operating margins have come down marginally from 39.7% to 36.8% y-o-y. Interest has gone up 0.3% y-o-y to Rs 11.7 cr. Reported PAT has gone up 26.5% y-o-y to Rs 46.7 cr.

For the half year ended FY15, company reported Net Sales of Rs 384.3 cr, up 16% y-o-y. Operating margins have come down to 33.1% from 37.2%. Reported PAT stood at Rs 70.1 cr, up 7.7% y-o-y.

Risks/Concern:

- Unwillingness by the power generation companies to up their capex spends and investments in capacity additions may impact Techno's top-line negatively.
- In addition to this delay of payments by SEBs (exposure to SEBs fairly low at the moment) may impact Techno ability to generate cash and thus may hamper its ability to reinvest it into BOOT and BOOM projects which require certain capex upfront.
- Policy deadlock and delay in spending on power transmission projects by the Central power PSUs.
- Failure to maintain its current margins due to stiff competition in the EPC space. Techno has installed a buffer to negate this by entering the 750 KV transmission segments which does not have a lot of competition currently.
- All EPC contractors in the power sector run the risk of not executing in stipulated specifications and time frame. Capacity expansion in the power generation sector in the Twelfth Plan is likely to be higher than in the earlier Plans. Hence, we believe any slowdown in these generation projects will impact Techno negatively.

- Techno may come out of MAT rate post FY15, which may lead to higher effective tax rate

Conclusion:

The Twelfth Five Year Plan is expected to belong to power transmission companies just the way the Eleventh Plan belonged to power generation companies. This optimism is based on credible evidence: the country intends to double its transmission sector investment to Rs 2,00,000 cr during the Twelfth Five Year Plan; the country's largest transmission sector player Power Grid is expected to scale its spending from Rs 80,000 cr in the Eleventh Plan upto Rs 110,000 cr in the Twelfth Five Year Plan. There is a reason behind Power Grid's urgency to spend its way to growth; the Company is nursing a capital work-in-progress estimated at a whopping Rs 50,000 cr which it intends to liquidate through expansion and de-bottlenecking programmes; the Company invested a sizeable Rs 22,000 cr in 2013-14 in growing its transmission network, probably the highest spending by the Company in any single year.

Techno has enjoyed the first flush of this turnaround. The Company increased its order intake of Rs 500-600 cr as seen in each of the last two years to Rs 1,200 crore in 2013-14 and Rs 1900 cr as on Sep 2014; substation project sizes almost doubled to Rs 150 cr; there has been a growing proportion of technology intensity in the substation projects warranting the engagement of technology-intensive vendors; what was once price-based competition has evolved into capability-based appraisal.

As per the management prospects, 20 per cent of the country's spending in the transmission sector will filter down to substation projects. The Company expects to conservatively account for 10 per cent of the country's substation investments across the Twelfth Five Year Plan, an area in which it enjoys considerable competence. While the Company expects to enhance revenues by about 15 per cent in 2014-15, it perceives that the big jump in revenues will transpire in 2015-16 when it expects to report a 30 per cent increase in revenues leading to improved profitability.

In the short span of four years, the Company has established leadership in the 500-plus kV space; with a formidable 60 per cent share in the value-added 765 kV segment Company expects to reach a turnover of Rs 2000 cr in the next five years. Company has an almost leadership position in EPC business of the transmission segment with most larger players like ABB, Siemens, BHEL concentrating more on the equipment/product part of the segment. Company expects its SEB business to do well. Since the orders are mostly on bilateral platform receiving payments on time would not be an issue. If Electricity Act is changed/amended to differentiate between content and carriage and higher proportion of PPP projects are allowed, Techno could do even better going forward.

Techno is also focusing on improving its international revenues (which is at present just 4%). This would also help in improving margins of the company as typically foreign orders have relatively higher margins than domestic ones. Also, if the company is able to find a buyer for its Wind Energy business which is not getting the desired momentum due to regulatory hurdles, ROEs of the company shall improve in the future.

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Reported PAT	112.8	121.6	122.5	87.7	127.8	161.6

Adjusted PAT	112.0	126.3	122.5	87.7	127.8	161.6
PATM%	15.0%	15.0%	17.0%	12.2%	16.6%	16.4%
EPS	19.61	22.11	21.46	15.36	22.39	28.30
PE (x)	19.0	16.8	17.4	24.2	16.6	13.2

Financials

Quarterly

Particulars (Rs cr)	Q2FY15	Q2FY14	% chg	Q1FY15	% chg	H1FY15	H1FY14	% chg
Net Sales	203.8	166.0	22.7%	180.6	12.8%	384.3	331.4	16.0%
Other Op income	4.4	4.0	10.3%	2.6	69.0%	7.0	7.6	-7.0%
Total Operating Income	208.2	170.0	22.4%	183.2	13.6%	391.3	339.0	15.4%
Total Expenditure	131.5	102.5	28.4%	130.3	0.9%	261.8	213.0	22.9%
Chg in Stock	-3.6	2.1	-273.2%	4.0	-188.3%	0.5	1.2	-61.0%
Raw material	110.9	82.1	35.1%	108.5	2.2%	219.4	174.8	25.5%
Employees cost	7.2	7.5	-4.9%	6.3	13.1%	13.5	14.3	-5.8%
Other expenditure	17.0	10.8	57.7%	11.5	48.2%	28.5	22.8	25.0%
Operating Profit	76.6	67.5	13.5%	52.9	45.0%	129.5	125.9	2.8%
Other income	6.0	6.3	-4.4%	3.0	100.7%	9.1	11.9	-24.2%
EBIDTA	82.7	73.9	11.9%	55.9	48.0%	138.6	137.9	0.5%
Interest	11.7	11.8	-0.3%	11.1	6.0%	22.8	23.9	-4.8%
PBDT	71.0	62.1	14.3%	44.8	58.3%	115.8	114.0	1.6%
Depreciation	17.5	16.8	4.2%	17.2	1.7%	34.6	33.4	3.8%
PBT	53.5	45.3	18.0%	27.7	93.5%	81.2	80.6	0.7%
Exceptional items	-0.8	-3.7	NA	-0.8	-3.8%	-1.5	-7.6	NA
Total Tax	5.1	3.8	34.3%	3.2	59.8%	8.2	6.5	26.5%
Adjusted PAT	47.7	37.9	25.9%	23.7	101.2%	71.4	66.5	7.5%
Minority Interest	1.0	1.0		0.4		1.4	1.4	
Reported PAT	46.7	36.9	26.5%	23.3	100.5%	70.1	65.1	7.7%
EPS	8.4	6.6	25.9%	4.2	101.2%	12.5	11.6	7.5%
Equity	11.4	11.4		11.4	0.0%	11.4	11.4	
OPM %	36.8%	39.7%		28.9%		33.1%	37.2%	
EBIDTA %	38.6%	41.9%		30.0%		34.6%	39.3%	
NPM %	22.3%	21.5%		12.7%		17.8%	18.9%	
Tax %	9.4%	8.3%		11.4%		10.1%	8.1%	

Segment Revenues	Q2FY15	Q2FY14	% chg	Q1FY15	% chg	H1FY15	H1FY14	% chg
EPC	150.9	117.9	28.0%	142.4	6.0%	293.2	236.9	23.8%
Energy	59.0	52.2	13.1%	40.8	44.6%	99.8	102.1	-2.3%
Corporate	4.4	6.3	-31.0%	3.0	44.9%	7.4	11.9	-38.3%

Segment PBIT	Q2FY15	Q2FY14	% chg	Q1FY15	% chg	H1FY15	H1FY14	% chg
EPC	23.0	13.3	73.0%	13.3	73.1%	37.8	18.9	100.5%
Energy	37.1	33.8	9.8%	33.8	9.8%	57.2	66.1	-13.4%
Corporate	4.4	6.3	-30.7%	6.3	-30.7%	7.4	11.9	-38.3%
Cap employed	Q2FY15	Q2FY14	% chg	Q1FY15	% chg	H1FY15	H1FY14	% chg
EPC	159.5	52.3	205.0%	107.3	48.7%	159.5	52.3	205.0%
Energy	668.2	719.7	-7.2%	656.8	1.7%	668.2	719.7	-7.2%
Corporate	62.8	63.0	-0.3%	96.4	-34.8%	62.8	63.0	-0.3%

Profit & Loss:

Profit & Loss (Rs in cr)	FY11	FY12	FY13	FY14	FY15 (E)	FY16 (E)
Sales	714.8	813.7	685.9	697.5	745.2	957.9
Other Operating Income	1.84	6.14	14.23	11.0	7.0	10.0
Total Operating Income	716.6	819.9	700.1	708.5	752.2	967.9
Input Cost	486.4	512.9	374.7	426.0	424.8	547.9
Staff Cost	23.3	28.3	32.5	29	28	36
Other Expenses	41.7	54.4	58.4	60.7	58.1	75.7
Operating profit	165.2	224.3	234.7	192.8	241.7	307.9
Other Income	27.7	22.5	20.6	12.0	18.0	18.0
EBIDTA(inc other income)	192.9	246.8	255.3	204.7	259.7	325.9
Depreciation	30.8	56.1	65.5	66.7	68.1	69.0
PBIT	162.2	190.7	189.8	138.1	191.6	256.9
Interest	25.0	41.2	52.2	45.4	45.0	46.0
Exceptional Items	0.8	-4.7	0.0	0.0	0.0	0.0
PBT	138.0	144.9	137.6	92.7	146.6	210.9
Current Tax	27.5	29.0	27.5	18.2	30.0	48.5
MAT	-2.3	-5.8	-12.4	-6.3	-12.0	0.0
Deferred Tax	0.0	0.1	0.0	0.2	0.0	0.0
Prior Period	0.0	0.0	0.0	8.3	0.0	0.0
Share of ass	0.0	0.0	0.0	0.0	0.0	0.0
Minority Int	0.0	0.0	0.0	1.2	0.8	0.8
Reported Net Profits	112.8	121.6	122.5	87.7	127.8	161.6
Adjusted Net Profit	112.0	126.3	122.5	87.7	127.8	161.6
Cash Profits	141.3	177	176	148	184	231
Equity Shares (cr)	11.4	11.4	11.4	11.4	11.4	11.4
Dividend per share (Rs.)	2	3	3	3	3	3
EPS (Rs.)	19.6	22.1	21.5	15.4	22.4	28.3

CEPS (Rs.)	24.7	31	31	26	32	40
Operating Margin	23.1%	27.4%	33.5%	27.2%	32.1%	31.8%
PATM(Before Minority)	15.0%	15.0%	17.0%	12.2%	16.6%	16.4%
EBIDTA(%)	25.9%	29.3%	35.4%	28.4%	33.7%	33.1%

Balance Sheet

Balance Sheet	FY11	FY12	FY13	FY14	FY15E	FY16E
Share Capital	11.4	11.4	11.4	11.4	11.4	11.4
Reserves & Surplus	550.7	658.2	758.5	825.7	905.0	940.5
Shareholders Funds	562.2	669.6	770.0	837.1	916.4	952.0
Minority Interest	0.0	16.7	18.79	19.31	19.31	19.31
Long term borrowings	52.1	416.4	517.2	478.5	450.0	400.0
Deferred tax liabilities	0.6	0.7	0.7	0.9	1.0	1.1
Other long-term liabilities	145.6	106.0	83.2	50.0	55.0	60.5
Long term provisions	0.8	1.0	1.2	1.4	3.1	3.1
Non current liabilities	199.1	524.1	602.3	530.8	509.1	464.7
Short term borrowings	156.9	154.6	110.5	61.4	61.4	61.4
Trade payables	312.4	136.6	107.2	106.7	122.6	141.0
Other current liabilties	83.9	68.7	62.0	89.8	107.7	129.3
Short term provisions	15.2	20.7	22.8	4.8	5.0	5.3
Current liabilities	568.4	380.5	302.4	262.6	296.8	336.9
Total	1329.7	1591.0	1693.4	1649.8	1741.6	1772.9
Assets						
Fixed assets	597.8	1134.2	1087.3	1052.8	1052.8	1052.8
Goodwill on consolidation	15.7	15.7	15.7	15.7	15.7	15.7
Intangible assets	0.0	0.0	0	0.75	0	0
Cap WIP	248.1	0.7	0.67	3.59	0	0
Non current investments	38.4	38.5	38.4	38.4	38.4	38.4
Long term loans and advances	114.8	10.9	23.3	29.7	29.7	29.7
Other non current assets	0.0	0.0	0	0	0	0
Non current assets	1014.7	1199.9	1165.3	1141.0	1136.6	1136.6
Deferred tax asset	0.0	0.0				
Current investments	0.2	15.0	26.2	148.6	148.6	148.6
Inventories	8.3	2.3	1.7	11.8	14.1	16.8
Trade receivables	168.3	250.4	306.0	206.0	226.6	249.3

Cash	24.9	17.6	71.8	48.1	117.2	119.8
Short term loans & advances	110.0	96.3	102.3	65.2	68.4	71.8
Other current assets	3.3	9.6	20.14	29.09	30	30
Current assets	315.0	391.0	528.1	508.8	605.0	636.3
Total Assets	1329.7	1591.0	1693.4	1649.8	1741.6	1772.9

Key Ratios	FY12	FY13	FY14	FY15	FY16
Dividend Payout	14%	14%	20%	13%	11%
Dividend %	150%	150%	150%	150%	150%
Capital Employed	771.8	1241.4	1398.3	1377.9	1464.3
Net Worth	562.2	669.6	770.0	837.1	952.0
RoCE	25.0%	18.9%	10.5%	13.8%	18.1%
RoNW	19.2%	19.9%	12.2%	15.9%	18.1%
Book Value (Rs.)	98	117	135	147	167

1 Year closing price chart:

RETAIL RESEARCH Tel: (022) 3075 3400 Fax: (022) 2496 5066 Corporate Office

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Website: www.hdfcsec.com Email: hdfcsecretailresearch@hdfcsec.com