Techno Electric & Engineering Co. |BUY| TP: 466

Headed for Electrifying Growth

Capitalizing on its Electro-mechanical capabilities, Techno Electric & Engineering Co. (Techno) is at the cusp of embarking upon a new journey in the area of Data Centres. Data centre capacity in India is likely to grow multi-fold in the coming years. Data is the new oil and early foray of Techno will place it in the leading position to cash in on the burgeoning Data Centre market in India. Further, the existing business too is offering few alluring opportunities like FGDs and Smart Metering. After demonstrating its ability to execute its own Data Centre, the company is likely to become one of the very few EPC player in the country with ability to execute such projects. We initiate coverage on Techno Electric & Engineering with BUY rating and Target price (TP) of Rs466.

- **Data Centre a new gold mine:** Faster digital adoption driven by pandemic, supported by high growth in e-commerce, increase in usage of social media, greater preference for Over-The Top (OTT) entertainment platforms, the Government's impetus to the Digital India initiative and rapid digitalisation of services across industries will push the existing demand growth of 15-20% over FY15-19 to 25-30% over FY20-25E. The current 360MW Data Centre capacity is expected to treble over the next four to five years to 1.5GW by FY25. Our initial estimates suggest an incremental investment to the tune of $5-6 billion in building the domestic Data Centre infrastructure in India over this period.
- **FGD and Smart Metering New Verticals of growth:** Techno identifies Fuel Gas Desulfurization (FGD) and Smart Metering Infrastructure as two emerging engines of growth for the coming years. Thermal Power Gencos will spend ~Rs1.2tn on FGD as 80GW of thermal power has to migrate to prescribed emission norms. Techno will be bidding for 12000MW or Rs60bn worth of projects and expects Rs5bn of order inflow annually from this segment in the coming years. Smart Metering too offers a significantly large EPC opportunity for the company as the Govt. of India is planning to replace 220mn conventional meters over the next three years, with a capital outlay of Rs1.8-2.0tn. Techno remains one of key player in the smart metering space and is already executing a project in J&K funded by REC.
- **Strong Free Cash Flow generation (cash & its equivalents stood at Rs.55/share in FY20) and generous reward to Minority Shareholders:** Techno's capital light model and smart management of working capital led to strong free cash generation. The company has generated free cash of Rs12.8bn over the last five years and is expected to generate Rs4.5bn of cash in the next three years, despite our assumption of higher working capital requirement over the same period. The company has rewarded its minority shareholders in the form of share buyback/ dividends – company did buyback of shares to the tune of Rs1100mn in 2019 (buyback price was Rs.410/share, which was at over 40% premium to the VWAP price as on 4th Dec 2018), without the participation of promoters; further, company had declared two interim dividends for FY21 aggregating to Rs6/share.
- **Valuation & Risks:** We have valued Techno's EPC business at 18xFY23E P/E and its Wind Power Asset at Book Value. We have not included Kohima Mariani Transmission Asset separately in our SOTP Valuation as its sale consideration has been captured in the cash component. Consequently, the SOTP valuation of Techno Electric & Engineering works out to be Rs466, giving an upside of 43% from the current levels. **A sharp recovery in order inflow on account of new business verticals and its entry into burgeoning Data Centre business, which is yet not fully captured in its valuation, makes Techno an attractive play in the domestic infrastructure space. The company's robust RoIC profile and unlevered balance sheet offer significant headroom for valuation expansion. We initiate coverage on Techno Electric & Engineering with BUY rating and target price (TP) of Rs466.**

Target Price	466			Key Data	
				Bloomberg Code	TEEC IN
CMP	327			Curr Shares O/S (mn)	110
				Diluted Shares O/S(mn)	110
Upside	*43%*			Mkt Cap (Rsbn/USDmn)	36.8/508
Price Performance (%)				52 Wk H / L (Rs)	345/171
	1M	**6M**	**1Yr**	5 Year H / L (Rs)	439/171
TECHNO	13.1%	52.2%	74.4%	Daily Vol. (3M Avg.)	214027
NIFTY	*3.8%*	*19..0%*	*62.7%*		

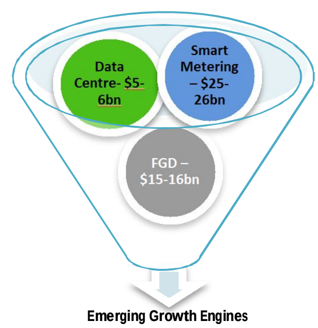
Source: Bloomberg, ACE Equity, MNCL Research

Shareholding pattern (%)

	Mar-21	Dec-20	Sep-20	Jun-20
Promoter	60.18	60.18	60.18	60.18
Institutions	31.97	28.69	29.07	29.85
Others	7.85	11.12	10.75	9.97

Source: NSE, MNCL Research

New Engines of Growth



Source: MNCL Research Estimates

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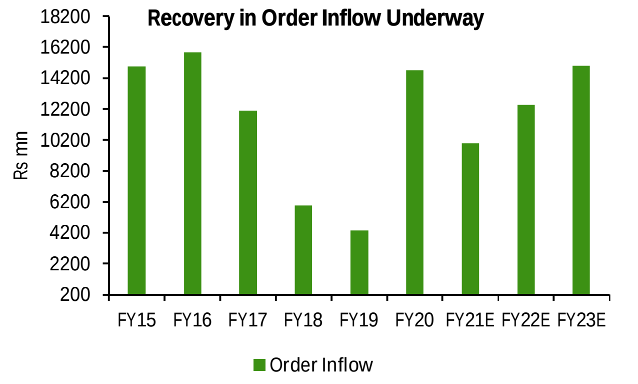
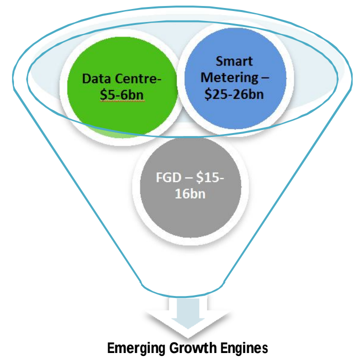
Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT	YoY (%)	EPS	P/E (x)	RoE (%)	RoIC (%)
FY19	9,860	*-23.6*	2,491	*25.3*	1,934	*-6.0*	17.2	19.0	*14.6*	*15.3*
FY20	8,715	*-11.6*	2,162	*24.8*	1,791	*-7.4*	16.3	20.1	*12.3*	*15.0*
FY21E	9,359	*7.4*	2,436	*26.0*	2,188	*22.2*	19.9	16.4	*13.9*	*16.4*
FY22E	12,740	*36.1*	3,048	*23.9*	*3,649	*66.7*	33.2	9.8	**20.5*	*20.1*
FY23E	15,216	*19.4*	3,533	*23.2*	2,940	*-19.4*	26.7	12.2	*14.7*	*22.5*

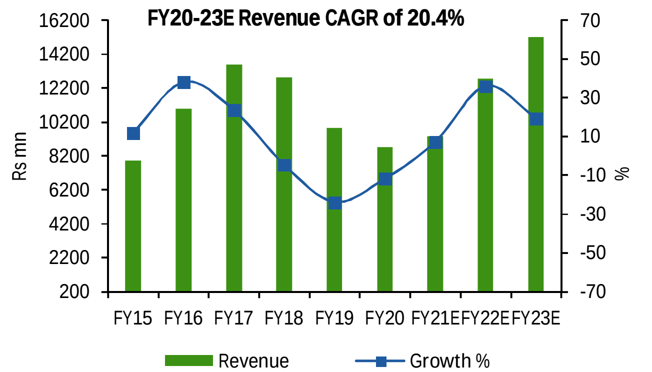
The steep rise estimated in PAT & ROE in FY22 is due to expected exceptional gain on sale of Kohima Mariani Transmission Asset

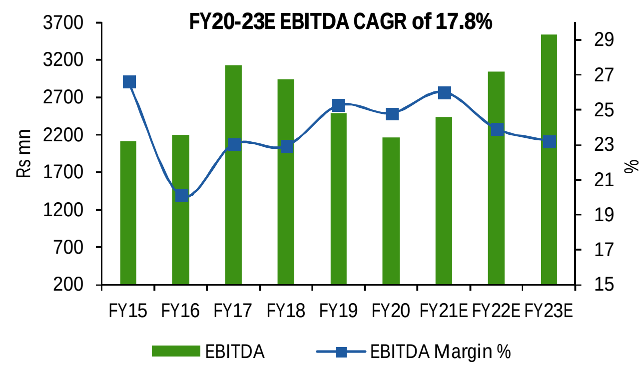
Source: Company, MNCL Research estimates

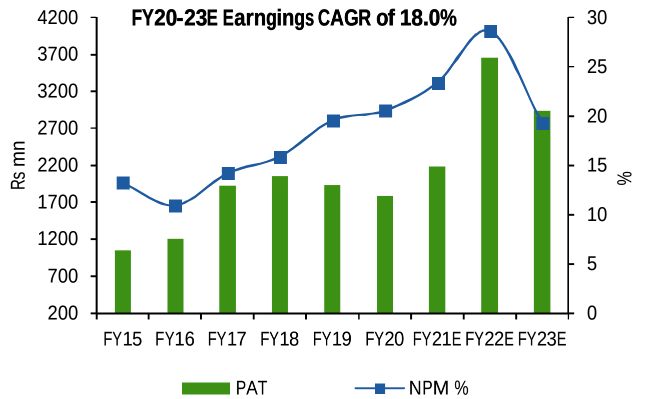
Investment Thesis in Charts

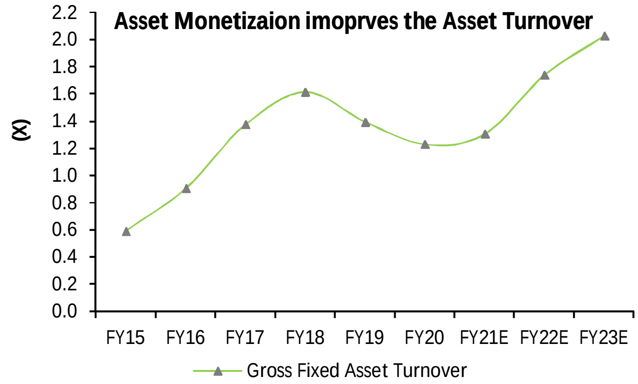


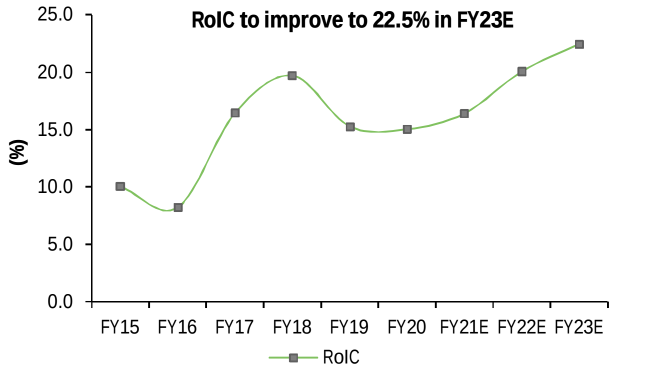


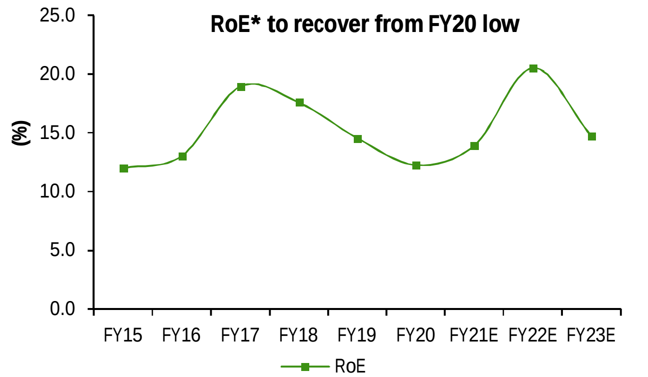












***** Steep rise estimated in PAT growth/RoE in FY22E is due to expected exceptional gain on sale of Kohima Mariani Transmission Asset*

Source: Company, MNCL Research Estimates

Revenue growth to accentuate with new growth engines in place

Techno Electric & Engineering Co (Techno) has been one of the key EPC players in the domestic Power Generation, Transmission and Distribution space. The company has developed several power transmission assets on BOT basis and monetized it at an opportune time to keep the asset base of the company light. Further, the company has 129.9MW Wind power assets located in the South India.

Exhibit 1: Existing Business Verticals

Segment	Sub Segment	Details
EPC	Power Generation	Balance of Plant, Captive Waste Heat Recovery plant and Conventional Power Plant up to 200MW on Turnkey basis, FGD etc.
	Power Transmission	EHV Substations up to 765 kV (AIS/GIS), STATCOM installation up to 250 MVaR
	Power Distribution	Smart Metering Infrastructure, Distribution System Management, Projects under RG Gramin Vidyutikaran Yojna
	Industrial	EHV Substations, Material Handling Systems, Fire Protection Systems
Wind Power Assets	129.9MW Wind Farm in Karnataka and Tamil Nadu	44.45MW and 33MW of Wind Assets had been divested earlier, the balance 129.9MW will be divested in future
PPP Transmission Asset under JVs	Kohima Mariani Transco developed under a JV with Kalpataru Power	Two Transmission assets developed, Jhajjar KT and Patran had been divested in the past; stake sale agreement for the Kohima-Mariani Transmission signed recently

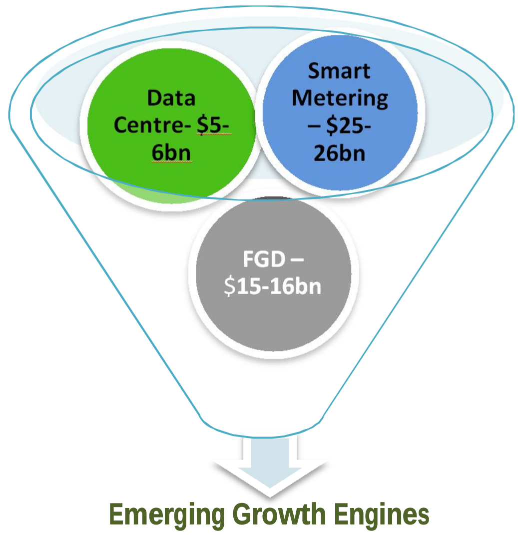
Source: Companies, MNCL Research, Techno Annual Reports and Presentations

Large power generation capacity addition in the early years of last decade had significantly outpaced the demand, leading to a temporary sluggishness in the core business of Techno, particularly the Transmission EPC business over the past few years. However, emergence of new opportunities in the domestic Infrastructure market continues to offer long term visibility for Techno.

Bucking the sluggish trend in the broader Power Infrastructure space, Techno has identified new verticals of growth, which offer large sustainable revenue visibility over medium to long term. Techno Electric has identified three future growth engines-

- **Data Centre**- Offering opportunities both on basis of asset ownership as well EPC projects
- **Fuel Gas Desulfurization**- EPC projects in the Power Generation space
- **Smart Metering**- EPC projects for Smart meters and peripheral distribution infrastructure

Exhibit 2: At the cusp of a business transformation



Source: Monarch Research Estimates

Data is the new oil; Data Centre business to offer multiple revenue stream and synergy for Techno

Owing to low cost availability of internet, India has seen a sharp pick up in the digitalization across the verticals over the last five years, which got further accentuated with the Pandemic. Faster digital adoption driven by pandemic, supported by high growth in e-commerce, increase in usage of social media, greater preference for Over-The Top (OTT) entertainment platforms, the Government's impetus to the Digital India initiative and rapid digitalisation of services across industries has given push to the accelerated requirement for Data centres in India.

The country has seen 15-20% growth in the demand of data centres over the last five years and the demand growth will further steepen to 25-30% over the next five years, dwarfing the previous growth cycle in the range of 15-20%. India currently has 360MW of data centres and the capacity is likely to treble over the next four to five years.

Meteoric rise in the data centre business

Data Centre capacity, which stood at less than 200MW in FY16 grew at CAGR of 15-20% to reach 360MW in FY20. The industry is at the cusp of an accelerated growth trajectory in the next phase. We estimate the data centre capacity in India to grow at a CAGR of ~33% over FY20-25, trebling the data centre capacity to over 1.5GW, with a massive incremental capital expenditure of $5-6bn over the same period.

Exhibit 3: Data Centre Business at an inflexion point

Data Centre Capacity	FY16	FY20	FY25	CAGR FY16-20	CAGR FY20-25
Capital Outlay ($mn)	600	1200	6200	18.9%	38.9%
Capacity in MW	188	360	1500	17.7%	33.0%

Source: Companies, MNCL Research

Transition of Data Centres from Captive to Co-location and IaaS based to unleash the potential...

Data Centres which were initially established for captive use, are seeing a transformation into more flexible formats like Co-Location and IaaS based offerings, making the business models more viable, allowing players other than the companies requiring owned data centres (like Techno) to foray in this area.

Exhibit 4: Transition of Data Centre Business towards more flexible/viable formats

Data Centre Formats	Features	End user Industry
Captive	High Investment, Complete control over Software and Hardware	BFSI
Co-Location	Capex saving due to leasing of Rack Space	BFSI, Govt., Manufacturing, IT/ITeS
IaaS Based	No Capex by user, Pay as use pricing, Higher scalability as per demand, Economy of Scale	E-commerce, IT/ITeS, Media, Telecom, MSME

Source: Companies, MNCL Research

Techno's foray in the burgeoning domestic Data Centre market…

Having a vast experience in the Electro-mechanical projects, Techno has planned to enter the burgeoning Data Centre market. The company will be setting up a Data Centre of 25MW capacity in Chennai, where it has wind power asset of 111.9MW. This will entail a capital outlay of Rs7.5bn, out of which Rs2.5bn will be funded through equity, while the balance will be funded through debt. The company is in active discussion with global players to form a joint venture and the asset will be transferred to the Special Purpose Vehicle. The company can monetize the Data Centre asset at an opportune time in future. **It will allow Techno to demonstrate its ability to execute such projects and will subsequently result in large EPC order in this space.**

Data Centre a Synergetic play for Techno, to develop 250MW Data Centre capacity by FY26

Entry into Data centres provides several synergetic benefits for Techno Electric as almost 2/3rd of capex in a typical data centre is of Electro-mechanical nature, where the company has strong technological experience. Almost 60% of the project will be executed by Techno itself on EPC basis, where it will earn its usual EPC margin. Further, the company's Wind Power asset located in Tamil Nadu will be supplying the power to the first Techno data Centre in vicinity of its Wind farm, leading to a much better tariff of about ~Rs5.5 per unit, compared to current Rs3.12/unit. The company has already been allotted land in Chennai, while it has applied to the state department for land allotment in Kolkata.

Apart from establishing its own Data Centres, Techno also expects large EPC order inflow in this segment once it demonstrates the knowhow of establishing a Data Centre. The company envisage to develop 250MW Data Centre capacity either on EPC basis or through JVs (by jointly owning the assets), over the next five years. This will lead to large EPC order inflows for Techno's EPC business over the next five years.

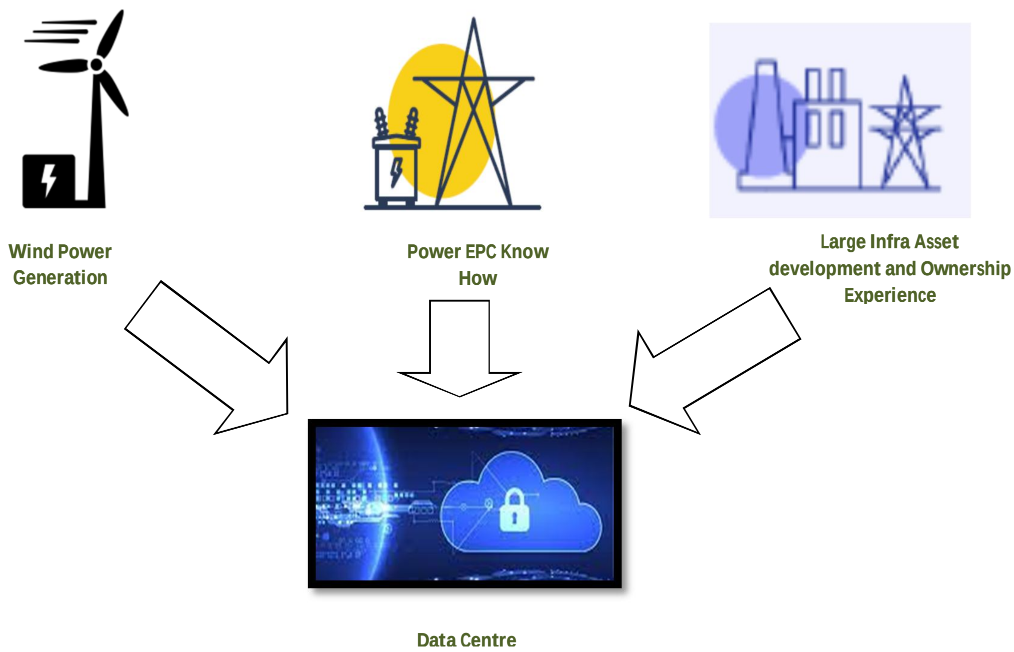
Based on the company's plan, we expect EPC order inflow to the tune of Rs45-48bn from Data Centre business over the next 5 years, apart from other revenue streams.

Exhibit 5: Data Centre Entry: Timeline

Location	Capacity / Type	Project Size (Rs bn)	Commissioning	Status/Feature
Chennai	25MW-Hyper Scale	7.5	FY22	Owned, Captive use of Power, Land Allotted
Kolkata	20MW-Edge	6	FY23	Applied for Land
Hyderabad	N.A.	-	FY24	-
Navi Mumbai	N.A.	-	FY25	-
Planned Capacity	**250 MW**	**75**	**FY26**	**Owned/EPC Basis**

Source: Companies, MNCL Research

Exhibit 6: Data Centres: The Synergy at Play



Source: Companies, MNCL Research

Large opportunity in the FGD and Smart Metering, EPC Order inflow to remain strong in the medium term...

Techno Electric sees FGD (Fuel Gas Desulfurization) and Smart Metering Infrastructure development as new verticals for growth in the medium term. Both offers significantly large opportunities and the EPC orders in these segments have already started flowing in, which will further ramp up in the coming quarters.

Fuel Gas desulfurization (FGD): a large medium term opportunity

Given the Government directives, the thermal power plants in India has to limit their sulphur emission to the prescribed levels. This will require the technological up-gradation of thermal power plants. Out of the total thermal capacity in India, 80GW of thermal capacities are yet to transit to the better emission norms, which will require an estimated capital outlay of Rs1.2 Trillion. This offers large medium term opportunity for the EPC players like Techno.

As most of the larger players like BHEL, L&T, GE and ISGEC (20GW, 8-10GW, 8-10GW and 3GW respectively) have large pile of unexecuted orders, Techno is likely to see strong order inflow in this segment in the medium term.

Techno is planning to bid for FGD orders for 12000MW or Rs60bn and expects annual order inflow of Rs5bn in the medium term. The company had already bagged one FGD order in 2019 from DVC for 500MW Bokaro thermal power plant worth Rs3190mn and recently received another order from DVC worth Rs5bn from DVC for Chandrapura thermal power plant.

Smart Metering Infrastructure: the next engine of growth

As a first step towards smart grid, the Govt. of India is implementing smart metering infrastructure across the states. Under the Smart Meter National Programme (SMNP), the Govt. has plans to replace 250mn conventional meters with the smart meters. Although the plan was launched in

2015, the implementation has been slow and currently 5-6mn meters are being replaced annually. The implementation is expected to gather pace going forward and close to 220mn meters will be replaced over the next three years.

Smart Metering Infrastructure development for 220mn meters would mean a capital outlay of Rs1.8-2trillion over the next three years.

Techno is qualified for the projects funded by REC and it is already working on Rs1060mn project of smart meters in the state of J&K, which will replace 2 lac conventional meters with the smart meters. The scope of the project can further expand for 9 lac meters with a potential order inflow of Rs6-7bn for the company in the coming years

The company is also executing small scale smart meter projects in other states, which will allow it to qualify for the larger orders in those states. Besides, they are eligible to bid for any project funded by REC.

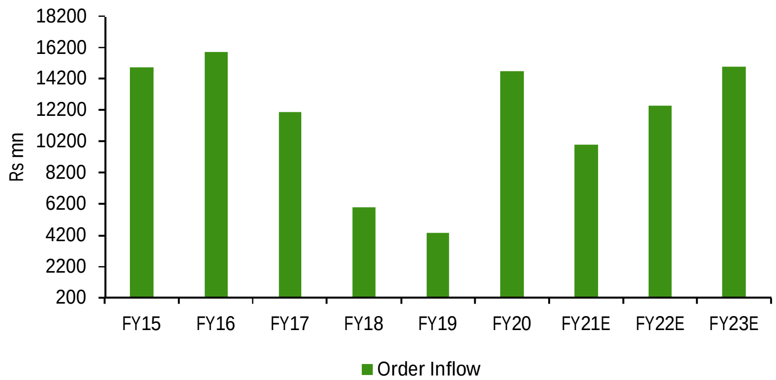
New business opportunity to drive the order inflow

Company witnessed sluggishness in its core Generation and Transmission EPC businesses during FY 16-19, reflected in the decline in the order inflows which saw de-growth of ~ 35.1% during the period. The order inflow in FY19 shrunk to mere Rs4,351mn. However, the company saw sharp recovery in order inflow in FY20 and reported strong order inflow at Rs14,719mn. Barring the short term impact of COVID in early FY21, order inflow is likely to remain strong going forward, driven by robust visibility of FGD and smart metering order flow.

Further, large EPC orders are expected from the Data Centre business as well, which we are not considering in our calculation (only 2/3 of the value of 25MW Chennai Data Centre order is considered under EPC order inflow). Order inflow from the data centre business can significantly increase our estimate.

The company is expecting Transmission orders from 60GW evacuation for the Green Corridor, which has been delayed to June 2021.

Exhibit 7: Order Inflow Showing Recovery



Source: Companies, MNCL Research

Increasing presence in the overseas market

To offset the sluggish domestic order inflow, the company has been increasing its footprints in the overseas market over the past few years. The company has bagged several Trans-border projects in the past few years.

Techno has won three transmission projects, one each in Uganda, Afghanistan and Togo worth $ 18mn, 40mn and 9.69mn respectively.

Capitalizing on its experience, the company is bidding for larger foreign projects and is expecting two large projects one each in Afghanistan worth $ 250mn and in Kenya worth $87mn respectively.

We estimate outstanding order book to stand at Rs24.3bn, Rs25.0bn and Rs25.8bn in FY21E, FY22E and FY23E respectively, executable over 18-24 months.

Transmission Asset Monetization keeps the business capital light...

Techno follows a strategy of entering a new segment by setting up its own asset in the segment, demonstrating its capabilities to execute such projects. This is followed by EPC order flow in that segment. Further, to keep the business capital light, company would monetize the asset at an opportune time so as to concentrate on the EPC part of the business in that segment.

Techno Electric had executed three projects on BOT/BOOM basis in the Power Transmission segment and two of these had already been monetized, while it has signed agreement of sale for its stake in the third transmission asset (Kohima Mariani Transmission), which will be completed in FY22.

Exhibit 8: Transmission Assets and its Monetization

Transmission Assets	Patran	Jhajhar KT Transco	Kohima-Mariani
Type	BOOM	DBFOT	BOOM
Description	400/220kV GIS substation with 14 bays in Patran; 1,000 MVA evacuation capacity, comprising LILO of Patiala Kaithal 400 kV double circuit triple snowbird line at Patran	400 kV transmission system with double circuit quad moose line that extends from Jharli to Kabulpur in Rohtak (35 km) and from Kabulpur to Dipalpur in Sonepat (64 km); Two substations of 400/220 kV of 24 bays each at Rohtak and Sonepat; Transmission network designed to evacuate 2,400 MW	26%:74% JV with KPTL; 400 kV transmission system with transmission lines that extend from Imphal to New Kohima (134 km) and from New Kohima to Mariani (119 km); Substations of 400/220 kV at New Kohima (8/6 bays)
Project Cost (Rs mn)	2000	4440	13000
Equity Contribution by TEECL & JV Partner	500	760	3250
Govt Grant (Rs mn)	-	920	-
Debt (Rs mn)	1500	2760	9750
Commissioning	Jun-16	Mar-12	May-20
Deal Value (EV) (Rs mn)	2250	3100	18000
Stake sold	74%	49%	26% (agreement for sale)
Stake Sold to	India Grid Trust	India Grid Trust	CLP India

Source: Company, MNCL Research

Similarly, the company entered the Wind Power business by setting up a total wind power capacity of 207.4MW. Out of which, the company had sold two assets of 44.45MW and 33MW at an EV of Rs2150mn and Rs1650mn in Q1FY16 and January 2017 respectively. It currently owns 129.9MW of wind assets (110.9MW in Chennai, which will be powering the Techno's Chennai Data Centre and 19MW in Karnataka). The company has plans to divest the balance wind portfolio at an opportune time.

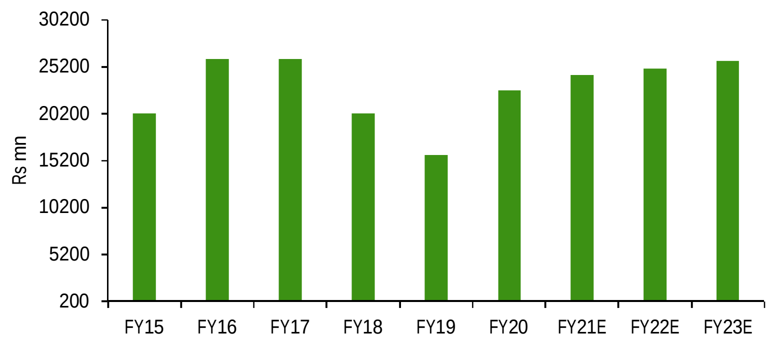
The company is following the similar strategy in the Data Centre Business, by setting up its own Data Center to demonstrate its capabilities, followed by large EPC order flow in the segment in the coming years.

Financial snapshot

Revenue to witness 21.1% CAGR over FY20-23E

Large Power generation capacity addition in the first half of the last decade resulted in excess capacity in the power generation space in India. Country currently has 379.13GW of total power generation capacity. The country has witnessed a sustained decline in the PLF (plant Load Factor) from 77.5% in FY10 to 53.4% in FY21 (till Feb 2021) (source: CEA, India). Consequently, Power EPC order inflow started witnessing a steady decline during FY17-20. However, the company has seen significant revival in the order inflow in FY20 and it is likely to sustain as emerging verticals within the existing core business (like Smart Metering, FGD etc.) and Data Centre offer strong order visibility in the coming years.

Exhibit 9: Strong Order book Outstanding gives revenue visibility...

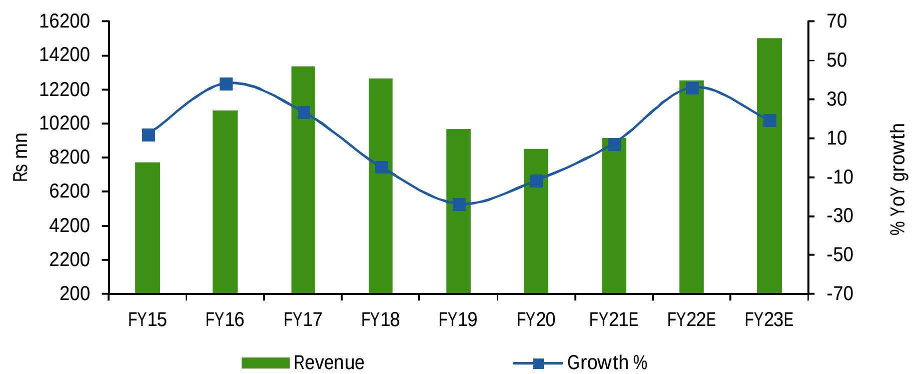


Source: Company, MNCL Research

Order book bottomed out in FY19 as the new verticals like FGD and Smart Metering EPC orders started flowing in. We believe that order flow from FGD and Smart Metering will further ramp-up in the coming years while Data Centre will start contributing to the order book from FY22E onwards.

After witnessing a steady decline at a CAGR of 13.6% during FY17-20, revenue is at the cusp of sharp recovery, with Rs22.7bn order outstanding. We estimate Techno's revenues to grow at a CAGR of 20.4% during FY20-23E to reach Rs15.2bn in FY23E.

Exhibit 10: Revenue growth trajectory to steepen to 20.4% during FY20-23E...

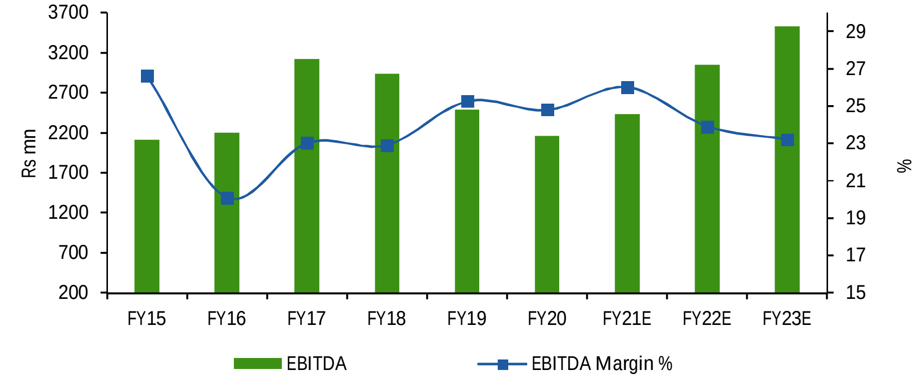


Source: Company, MNCL Research

To maintain healthy and stable EBITDA margin

Having technological edge in executing complex power projects resulted in a robust EBITDA margin profile for Techno. The company has maintained healthy EBITDA margin in the range of 20-25% over the past five years. Entry into the newer segments like FGD, Smart Meters and Data Centre will not dilute the company's margin profile. However, we have taken a conservative view and projected blended EBITDA margin of 23.9% and 23.2% in FY22E and FY23E respectively as we believe that it will be probably difficult for the company to maintain margin profile of FY20 & FY21 where company could achieve cost optimization during the pandemic.

Exhibit 11: EBIDTA margins to remain stable in 23-25% range in FY21-23E

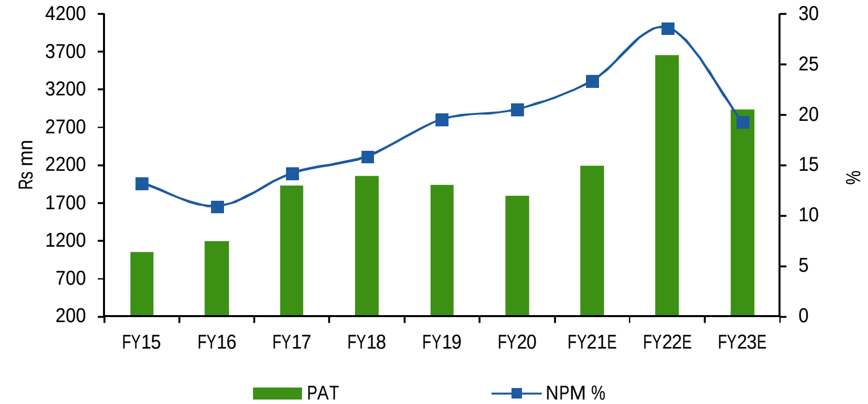


Source: Company, MNCL Research Estimates

Stable operating profit and deleveraging resulted in robust earnings growth; strong order book aids earnings visibility

Healthy EBITDA margin profile, coupled with sustained deleveraging has resulted in a robust earnings growth in the past. Net profit margin improved from 13.2% in FY15 to 20.6% in FY20. PAT of the company has grown at a CAGR 11.3% over the past five years. **On the back of robust order book and strong order inflows visibility from the emerging verticals, we expect the earnings of the company to grow at a CAGR of 18% over the next three years.** The steep rise estimated in PAT & NPM in FY22 is due to expected exceptional gain on sale of Kohima Mariani Transmission Asset.

Exhibit 12: Factoring in 18% CAGR in PAT over FY20-23E

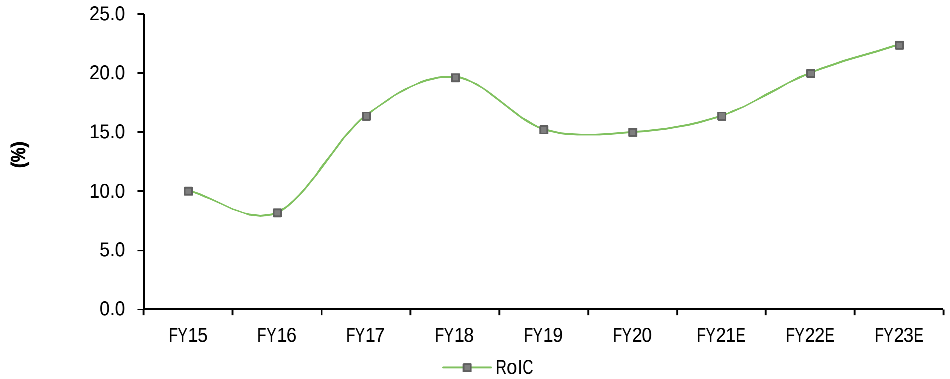


Source: Company, MNCL Research Estimates

Upward trend of RoIC to continue after a brief pause in FY19-20, a case for re-rating

Monetization of assets and stable profitability has resulted in steady rise in the return ratio profile of the company. After a decline in FY19, we expect the RoIC to continue its northward trend and to reach 22.5% in FY23E, despite our assumption of rise in the working capital requirement going forward as contribution from FGD orders increases. We expect working capital cycle to expand from 23 days currently to 35 days in the next three years. Techno can see sharp rise in RoIC in the coming years, if the company manages the working capital better than our expectations. **Northward shift of the RoIC profile coupled with an unlevered balance sheet makes a strong case for PE re-rating in the coming years.**

Exhibit 13: Upward trajectory of RoIC continues after a brief pause in FY19-20



Source: Company, MNCL Research Estimates

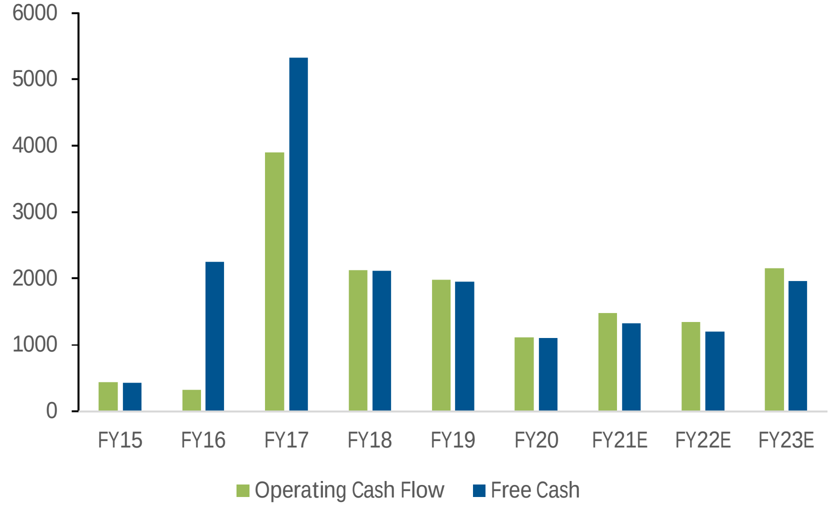
Strong Free Cash Generation and generous reward to Minority Shareholders:

Techno's capital light model and smart management of working capital led to strong free cash generation. Techno has consistently generated positive operating cash and free cash over the last five years. The company has generated free cash of Rs12.8bn over the last five years and is expected to generate Rs4.5bn of cash in the next three years, despite our assumption of higher working capital requirement over the same period. Techno is a zero debt company with cash and its equivalents (which includes current investments as well) of Rs5950mn in FY20 (Rs55 per share); cash on the books is expected to go upto Rs10.9bn by FY23E as per our estimates.

The company has rewarded its minority shareholders in the form of share buyback/dividends. Techno rewarded the minority shareholder by undertaking buyback of shares to the tune of Rs1100mn in 2019, without the participation of promoters. It bought back 5.4mn shares from the minority shareholders.

Further, the company has announced two interim dividends in FY21, aggregating to Rs6 per equity share. This shows the company's intent of maximizing the shareholders' value and rewarding the minority shareholders fairly.

Exhibit 14: Robust Free Cash and Operating Cash Generation



Source: Company, MNCL Research Estimates

Valuation & Outlook

Initiate Coverage with a BUY and TP of Rs466

After facing significant headwinds during FY17-19, the company reported a sharp recovery in order inflow in FY20. New verticals like Fuel Gas Desulfurization and Smart Metering Infrastructure have started seeing ramp-up. We feel that these two new verticals will witness large opportunities going forward. Techno's entry into burgeoning Data Centre business, which is not yet fully captured in its valuation, makes it an attractive play in the domestic infrastructure space. The company's robust RoIC profile and unlevered balance sheet offer significant headroom for valuation expansion. We initiate coverage on Techno Electric & Engineering with BUY rating and target price (TP) of Rs466 using SOTP valuation of its assets.

Sum-Of-The-Parts Valuations

We have valued Techno's EPC business at 18xFY23E P/E, while its Wind Power Asset has been valued at Book Value. We have not included the Kohima Mariani Transmission Asset separately in our SOTP Valuation as its sale consideration has been captured in the cash component. Consequently, the SOTP valuation of Techno Electric & Engineering works to be Rs466, giving an upside of 43% from the closing price as on 28th May 2021. **Further, our valuation does not capture the potential of Data Centre business, we have merely taken the EPC part of the 25MW data centre that the company is setting up in Chennai. Our valuations has an upside potential, when we will have more clarity on the modalities of its Data Centre business. We expect the company to announce about the partnership and SPV formation for the Data Centre business soon.**

Exhibit 15: Fair value at Rs466 using SOTP Valuation

Particulars	Methodology	Value
EPC Value (Rs mn)*	18x FY23E PE	32,909
Wind Asset Value (Rs mn)	1x BV	7,535
Value of Consolidated Business Ex. BOOT Asset (Rs mn)		40,444
Excess Cash & Inv. (Rs mn)		10,906
Less: Bank Guarantees (Rs mn)		-122
Value of Business (Rs mn)		**51,228**
Value per Share (Rs)		**466**

*Please refer to back-of-the-envelope calculation on Page-15

Source: MNCL Research Estimates

Our SOTP valuation of Techno Electric at Rs466 implies a target PE multiple of 17.4x FY23E. With sharp improvement in the RoIC in the coming years and entry into Data Centre business having a large long term earning potential, we feel that Techno Electric presents a strong case for PE re-rating.

Exhibit 16: Peer Comparison

Particulars (Rs mn)	CMP (Rs)	Market Cap	TTM Rev	TTM EBITDA	TTM EBITDA Margin%	TTM PAT	TTM RoE %	TTM PE X
Techno	326.6	35926	7885	2037	25.8%	1907	*12.3%	18.8
KEC International	414.8	106645	131142	11412	8.7%	5527	18.0%	19.3
Kalpataru Power Trans.	423.65	63018	129490	15760	12.2%	**4610	**12.5%	13.7

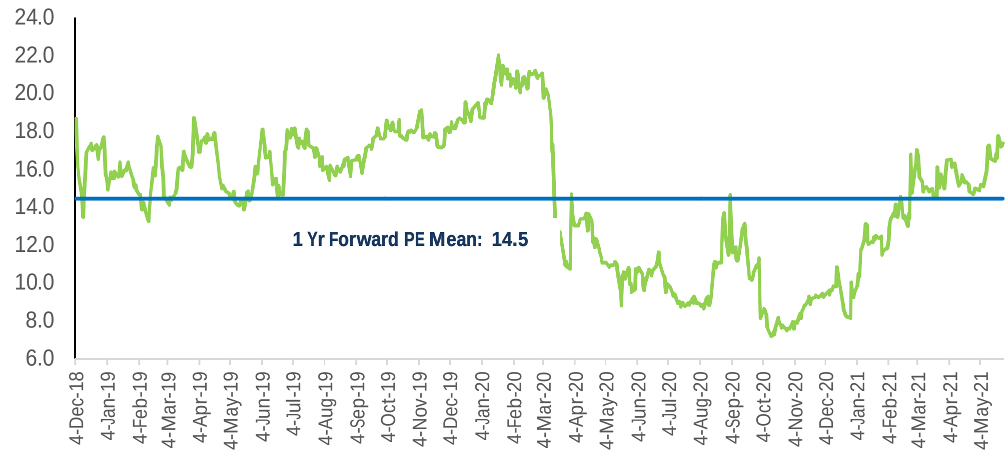
RoE figure of Techno is for FY20

***PAT/RoE of Kalpataru for FY21 has been adjusted for an exceptional gain of Rs2100mn on sale of transmission assets*

Source: MNCL Research Estimates, Companies

Back-of-the-envelope calculation:

Exhibit 17: One Yr. Forward PE Chart of Techno's EPC Business on Adjusted Price Basis



Source: Company, MNCL Research

Techno's EPC business has traded at an average PE of 14.5x on one year forward based on adjusted price (price adjusted for wind asset on 1xBV i.e., Rs69/share and BOOT Asset @Rs20/share) basis. We feel that the earning visibility of the company has improved with its entry into the data centre business. Further, strong balance sheet and improvement in RoIC profile will lead to re-rating of the stock. Consequently, we have assigned 18x PE target multiple for the EPC business.

Exhibit 18: One Yr Forward Price Adjusted PE for the EPC Business

Price Adjusted EPC PE	
Maximum PE	22.0x
Mean PE	14.5x
Minimum PE	7.2x

Source: Company, MNCL Research

Key risks to our thesis

- **Delay in implementation of new emission norms-** Delay in the implementation of the new emission norms can lead to sluggish order inflow from the FGD segment. This may significantly impact the revenue of Techno Electric
- **Delay in Infrastructure funding by Govt.:** Although the Govt. of India has prioritized the implementation of Smart Metering Infrastructure, the pace of implementation will depend upon the allocation of fund by the Govt. of India. Delay in capital allocation can severely impact the business of Techno Electric.
- **Partnership in Data Centre Business:** Although the company has executed complex Electro-mechanical projects in the past and it can execute major part of the data centre project by itself but the company need partners for roping in marquee clients as tenants for its Data Centre. Although the company is in talk with few companies with such capabilities, Inability to find good partner will impact the future revenue of the company.

Company Background

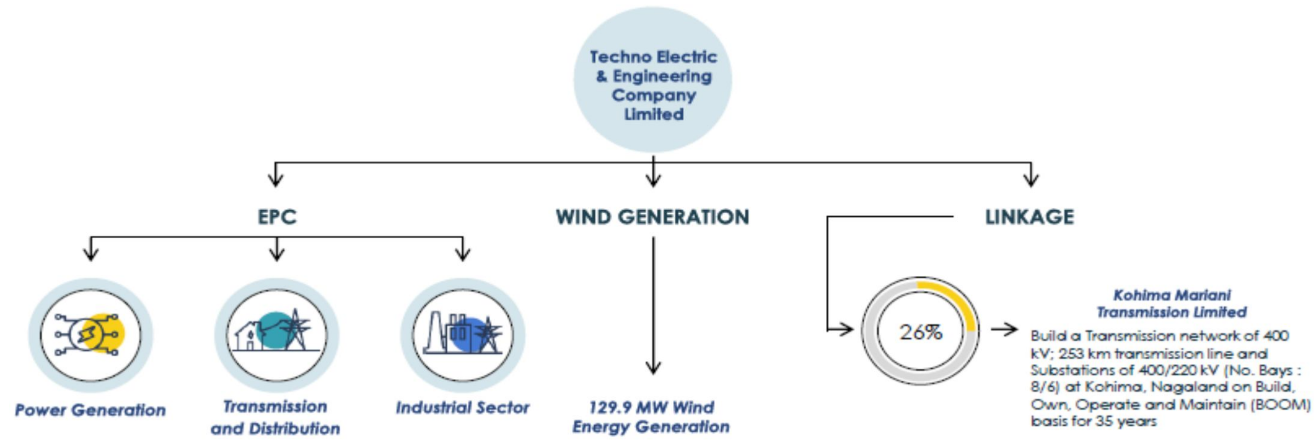
Techno Electric & Engineering Co is led by technocrat promoters with vast experience and deep understanding about the business. Founded in 1963, Techno has been led by Mr P. P. Gupta since 1980; he is an engineering graduate with management degree from IIM, Ahmedabad. He has more than four decades of experience in the Industry and he also served as Vice President of the Indian Electricals and Electronics Manufacturers Association (IEEMA).

Techno is a full spectrum EPC player present across Power Generation, Transmission as well as Distribution business; company has executed numerous complex projects on turnkey basis in these areas. The company has also operated as a BOT player in the Transmission business and set up several key Transmission infrastructures and has monetized at an opportune time to concentrate on its key area i.e. EPC.

The company also owns two Wind Power Assets with aggregate power generation capacity of 129.9MW.

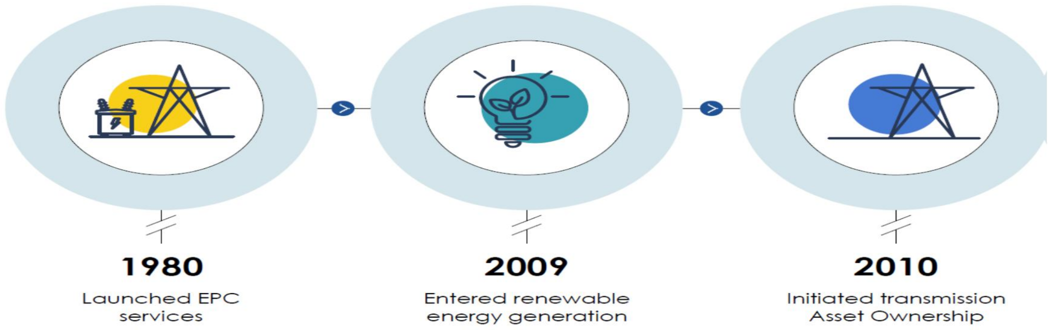
The company has recently announced its entry into burgeoning Data Centre Business with setting up of a 25MW Data Centre in Chennai and expects to execute 250MW of Data Centre business by FY26 either on EPC basis or through JVs (by jointly owning the assets).

Exhibit 19: Techno' key business verticals



Source: Company, MNCL Research

Exhibit 20: Techno' key milestones

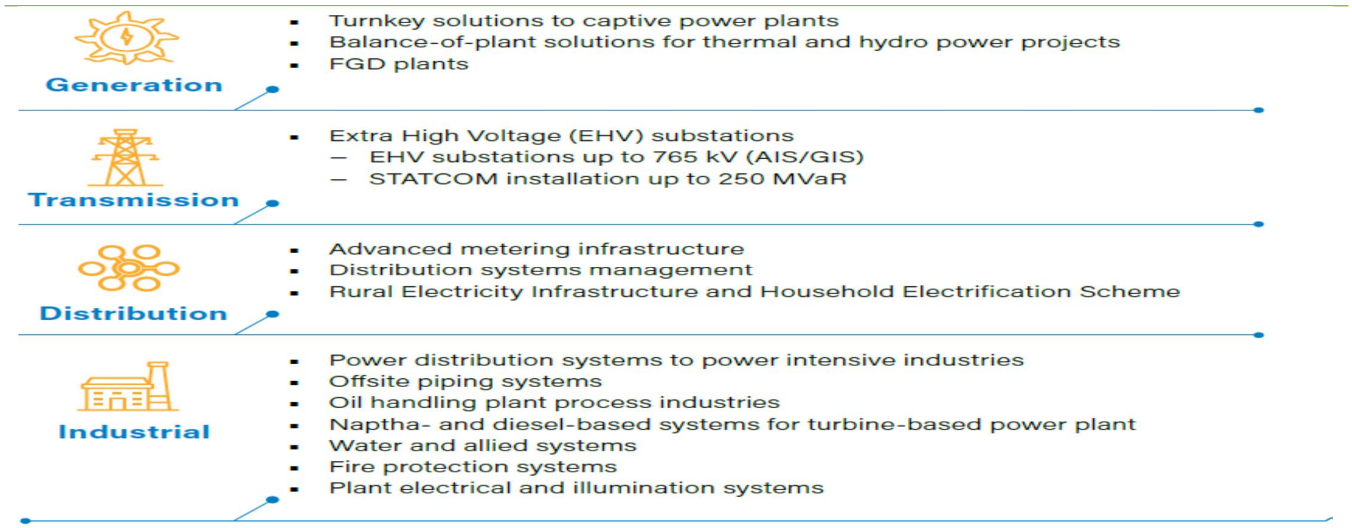


Source: Company, MNCL Research

EPC Segment: Techno has played a key role as an EPC player in the development of India's Power Infrastructure. The company has executed around 400 projects under EPC over the last 35 years of its operations, spread across Generation, Transmission and Distribution.

Techno's outstanding EPC order book stands at Rs20bn by the end of December 2020, with revenue visibility of 24 months.

Exhibit 21: Key EPC Capabilities



Source: Company, MNCL Research

Exhibit 22: Investment Roadmap in the Indian Power Sector

Rs2600bn Investment in Transmission Sector, of which Rs1600 in 400KV & Rs1000bnin 220KV segment.
Rs1000bn worth projects to be allocated, Rs74bn worth additional projects identified
The Union Budget 2021-22 allocated Rs3.05Tn for the power distribution, to be released over five years. Transmission infrastructure for renewable power capacity creation i.e.175 GW already approved and to be tendered out by June 2021.
The tenders for 50GW of transmission capacity stands for bidding and another 66.5 GW is in the bidding process while for the last lot the dates are yet to be released.
Govt. of India is to implement the FGD system for 123 GW by 2024 in India.
India plans to grow from 1mn smart meters to 250mn smart meters by 2024. Govt. plans to replace 220mn meters in the next 3 years.

Source: Company, MNCL Research

Exhibit 23: Key Company Highlights

Date of Incorporation	1963
Employee Strength (permanent)	405
Listed on	NSE & BSE
Key Clients	DVC, NTPC, PGCIL, REC, APTRANSCO, State Electricity Boards, Hindalco Ind., Afghan National Electricity Co., Uganda Electricity Transmission Co. etc.

Source: Company, MNCL Research

Exhibit 24: Details of Key Managerial Persons Company Highlights

MD	Mr. P.P. Gupta	Holds a bachelor's degree in Engineering and a master's degree in Business management from the Indian Institute of Management (IIM), Ahmedabad. He was a management consultant at Bharat Heavy Electricals Ltd. (BHEL) and worked in the merchant banking division of the erstwhile ANZ Grindlays Bank, Kolkata. He also served as Vice President of the Indian Electricals and Electronics Manufacturers Association (IEEMA). Mr. Gupta continues to guide the Company with over 40 years of experience in the domain.
Whole-time Director	Mr. Ankit Saraiya	Holds a bachelor's degree in Science (Corporate Finance and Accounting) with a minor in Computer Information Systems (CIS) from Bentley University in Waltham, Massachusetts, US.
CFO	Mr. P.K. Lohia	
CS	Mr. N. Brahma	

Source: Company, MNCL Research

Exhibit 25: Quarterly Financials& Key Operating Metrics

Rs Mn	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	% yoy	% qoq	9MFY20	9MFY21	% yoy
Net sales	**2375**	**2638**	**2608**	**1141**	**1698**	**2571**	**2476**	***-5.1***	***-3.7***	**7621**	**6744**	***-11.5***
Stock adjustment	146	22	-35	-9	28	-56	1	*-103.2*	*-102.0*	134	-27	*-120.3*
Purchase of finished goods	0	0	0	0	0	0	0	-	-	0	0	-
Materials, Stores & Project Exp.	1316	1349	1986	801	1021	1630	1471	*-26.0*	*-9.8*	4651	4122	*-11.4*
Employee cost	98	97	111	90	74	98	79	*-29.3*	*-20.1*	307	251	*-18.1*
Other expenditure	126	189	117	195	131	145	150	*28.0*	*3.3*	432	427	*-1.2*
Total expenditure	**1687**	**1657**	**2180**	**1076**	**1254**	**1818**	**1700**	***-22.0***	***-6.5***	**5524**	**4772**	***-13.6***
EBITDA	**688**	**980**	**429**	**65**	**443**	**753**	**775**	***80.8***	***2.9***	**2097**	**1972**	***-6.0***
add: Other income	126	112	122	90	133	506	110	*-9.2*	*-78.2*	359	750	*108.6*
Depreciation	104	104	104	104	103	103	103	*-1.1*	*-0.1*	311	308	*-1.0*
Interest	13	15	20	12	12	17	26	*27.1*	*50.5*	49	55	*14.1*
Exceptional items	0	0	0	0	0	0	0	-	-	0	0	-
Profit before tax	**697**	**974**	**426**	**39**	**461**	**1140**	**757**	***77.7***	***-33.6***	**2097**	**2358**	***12.5***
Provision for taxation	185	71	106	7	117	176	191	*80.3*	*8.4*	362	483	*33.6*
Extraordinary items	0	0	0	0	0	0	0	**-**	**-**	0	0	**-**
PAT after Minority Interest	**513**	**902**	**320**	**32**	**345**	**964**	**567**	***76.8***	***-41.2***	**1735**	**1875**	***8.1***
Equity Capital	220	220	220	220	220	220	220			220	220	
EPS (Reported)	4.7	8.2	2.9	0.3	3.1	8.8	5.2			15.8	17.0	
EBIDTA Margin (%)	29.0	37.2	16.4	5.7	26.1	29.3	31.3	*1488bp*	*201bp*	27.5	29.2	*172bp*
NPM (%)	21.6	34.2	12.3	2.8	20.3	37.5	22.9	*1060bp*	*(1461bp)*	22.8	27.8	*503bp*
Tax / PBT (%)	26.5	7.3	24.8	17.7	25.3	15.4	25.2	*37bp*	*974bp*	17.2	20.5	*324bp*
Gross Margin (%)	38.4	48.0	25.2	30.6	38.2	38.8	40.5	*1536bp*	*176bp*	37.2	39.3	*208bp*
Mat. & Proj. Exp/ Net Sales (%)	61.6	52.0	74.8	69.4	61.8	61.2	59.5	*(1536bp)*	*(176bp)*	62.8	60.7	*(208bp)*
Other Exp. / Net Sales (%)	5.3	7.1	4.5	17.1	7.7	5.6	6.1	*157bp*	*41bp*	5.7	6.3	*66bp*

Source: Company, MNCL Research

Financials

Exhibit 26: Income Statement (Consolidated)

P&L - Y/E March (Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenues	**7939**	**10972**	**13567**	**12828**	**9860**	**8715**	**9359**	**12740**	**15216**
Materials & Stores	5022	7816	9325	8862	6337	5577	5943	8090	9662
Employee cost	274	299	346	394	414	397	393	413	444
Others	529	652	772	631	618	580	587	1189	1577
Total Expenses	5825	8766	10442	9887	7369	6553	6924	9692	11683
EBITDA	**2114**	**2206**	**3125**	**2941**	**2491**	**2162**	**2436**	**3048**	**3533**
EBITDA margin (%)	26.6	20.1	23.0	22.9	25.3	25	26.0	23.9	23.2
Depreciation & Amortization	603	494	508	424	418	416	430	438	448
EBIT	**1511**	**1712**	**2617**	**2517**	**2073**	**1746**	**2006**	**2610**	**3085**
Interest expenses	465	443	373	235	123	61	75	79	88
Profit before tax	**1046**	**1269**	**2244**	**2282**	**1950**	**1685**	**1931**	**2531**	**2997**
Other income	202	629	492	370	704	465	840	2219	887
Exceptional items	0	0	0	0	0	**0**	0	0	0
PBT	**1248**	**1898**	**2735**	**2652**	**2653**	**2150**	**2770**	**4750**	**3884**
Taxes	185	721	837	649	743	373	582	1102	944
Effective tax rate (%)	14.8	38.0	30.6	24.5	28.0	17.4	21.0	23.2	24.3
PAT	**1063**	**1178**	**1899**	**2003**	**1910**	**1777**	**2188**	**3649**	**2940**
Minority/Associates	12	-23	-29	-54	-24	-14	0	0	0
Extraordinary Items	0	0	0	0	0	0	0	0	0
Reported PAT	**1051**	**1201**	**1927**	**2057**	**1934**	**1791**	**2188**	**3649**	**2940**

Source: Company, MNCL Research Estimates

Exhibit 27: Key Ratios (Consolidated)

Year-ended	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Growth Ratio (%)									
Revenue	*12.1*	*38.2*	*23.7*	*-4.6*	*-23.6*	*-11.6*	*7.4*	*36.1*	*19.4*
EBITDA	*7.0*	*4.3*	*12.8*	*-5.9*	*-15.3*	*-13.2*	*12.7*	*25.1*	*15.9*
Adjusted PAT	*20.1*	*14.3*	*60.5*	*6.7*	*-6.0*	*-7.4*	*22.2*	*66.7*	*-19.4*
Margin Ratios (%)									
EBITDA	*26.6*	*20.1*	*23.0*	*22.9*	*25.3*	*24.8*	*26.0*	*23.9*	*23.2*
PBT from operations	*15.7*	*17.3*	*20.2*	*20.7*	*26.9*	*24.7*	*29.6*	*37.3*	*25.5*
Adjusted PAT	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*	*0.3*	*0.2*
Return Ratios (%)									
ROE	*12.0*	*13.0*	*18.9*	*17.6*	*14.6*	*12.3*	*13.9*	*20.5*	*14.7*
ROCE	*9.3*	*7.5*	*12.7*	*13.6*	*10.2*	*9.1*	*9.4*	*10.6*	*11.0*
ROIC	*10.1*	*8.2*	*16.4*	*19.7*	*15.3*	*15.0*	*16.4*	*20.1*	*22.5*
Per share ratio									
Adjusted EPS	18.4	10.5	16.9	18.3	17.2	16.3	19.9	33.2	26.7
BVPS	160.2	162.5	97.0	109.3	126.6	136.0	149.9	173.1	189.8
CEPS	29.0	14.8	21.6	22.0	21.4	20.1	23.8	37.1	30.8
DPS	6.0	5.4	1.2	0.0	0.0	0.0	6.0	10.0	10.0
Dividend payout %	*32.6*	*25.7*	*7.3*	*0.0*	*0.0*	0.0	*30.2*	*30.1*	*37.4*
Valuation ratios									
P/E (adjusted)	17.7	15.5	19.3	17.9	19.0	20.1	16.4	9.8	12.2
P/BV	2.0	2.0	3.4	3.0	2.6	2.4	2.2	1.9	1.7
Dividend yield %	1.8	1.7	0.4	0.0	0.0	0.0	1.8	3.1	3.1

Source: Company, MNCL Research Estimates

Exhibit 28: Balance Sheet (Consolidated)

Balance sheet	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Non-current assets									
Net Fixed Assets	10052	8037	6286	5846	5451	5068	4750	4463	4202
CWIP	38	0	0	0	0	0	38	38	50
Goodwill	157	200	201	1	10	10	10	10	10
Non-Current Investment	380	634	789	837	977	1386	1594	438	1754
Non-Current Loans & Advances	367	80	33	33	117	123	124	137	150
Other Non-Current Assets	0	171	205	139	166	245	247	250	252
Current Assets									
Current Investments	968	926	3871	3665	4830	5522	5770	6030	6301
Inventory	63	379	2	78	189	65	128	175	208
Sundry Debtors	3449	4963	5596	7578	5444	5742	6154	8377	10005
Cash & Bank	247	1010	919	375	478	365	1401	4534	4604
Bank Balances Other than Cash & Equivalents	0	106	113	43	8	63	0	0	0
Other Short Term Assets	1093	2044	1048	600	2504	2207	2251	2297	2342
TOTAL ASSETS	**16815**	**18550**	**19064**	**19197**	**20174**	**20795**	**22467**	**26746**	**29880**
Equity									
Equity Share Capital	114	114	228	225	225	220	220	220	220
Other Equity	9033	9164	10842	12093	14037	14745	16273	18822	20662
Minority Interest	199	0	0	0	0	0	0	0	0
Long Term Borrowings	3967	3068	2099	224	0	0	0	0	0
Other Non -Current Liabilities	188	1,123	1,374	1,489	1,865	1607	1,708	1,818	1,935
Current Liabilities									
Short Term Borrowings	757	1,015	0	23	206	0	0	0	0
Trade Payables	1,367	2,875	3,407	4,492	3,364	3966	3,983	5,576	6,722
Other Current Liabilities & Prov.	1,189	1,190	1,113	650	475	257	282	311	342
TOTAL EQUITY AND LIABILITIES	**16815**	**18550**	**19064**	**19197**	**20174**	**20795**	**22467**	**26746**	**29880**

Source: Company, MNCL Research Estimates. Financials are as per Ind-AS.

Exhibit 29: Cash flow (Consolidated)

Y/E March (Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Operating Cash bef. Working Capital Changes	2,269	2,205	3,147	2,942	2,504	2162	2,436	3,048	3,533
Changes in Working Capital									
- Change in Receivables	-1,531	-2,537	407	-1,048	1,290	-1048	-412	-2,223	-1,629
- Change in Inventory	56	-317	377	-76	-111	124	-63	-46	-34
- Change In Payables	-113	1,270	651	870	-1,030	477	17	1,593	1,146
- Change in Other Current Assets & Liab.	0	0	0	0	0	0	23	18	24
Gross Operating Cash Flow	**680**	**622**	**4,582**	**2,688**	**2,653**	**1715**	**2,000**	**2,390**	**3,040**
Direct Taxes	-242	-297	-689	-567	-677	-599	-525	-1,043	-882
Cash Flow from Operations	**438**	**325**	**3,893**	**2,121**	**1,976**	**1115**	**1,475**	**1,347**	**2,158**
Net Capex	-7	1,920	1,440	-10	-23	-6	-150	-150	-200
Free Cash Flow	432	2,245	5,333	2,111	1,953	1110	1,325	1,197	1,958
Cash Flow from Investments	**658**	**1980**	**-1852**	**596**	**-1710**	**379**	**297**	**2965**	**-900**
Cash flow from Financing	**-1,330**	**-1,451**	**-2,132**	**-3,258**	**-164**	**-1607**	**-736**	**-1,179**	**-1,188**
Net Change in Cash	**-234**	**854**	**-91**	**-541**	**101**	**-113**	**1,036**	**3,134**	**70**
Cash in the beginning of the year	**481**	**155**	**1,010**	**95**	**375**	**478**	**365**	**1,401**	**4,534**
Cash at the end of the year	**247**	**1,010**	**919**	**375**	**478**	**365**	**1,401**	**4,534**	**4,604**

Source: Company, MNCL Research Estimates.

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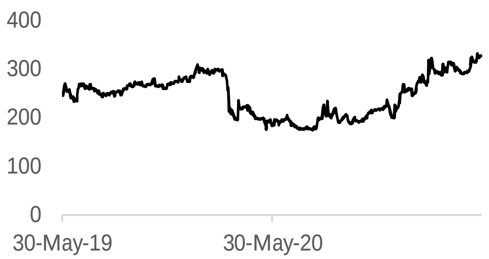
Stock Price Chart: Techno Electric & Engineering Co.



Source: Bloomberg, MNCL Research

Analyst holding in stock: **NO**

Key to MNCL Investment Rankings

Buy: Upside by>15%, Accumulate: Upside by 5%to 15%, Hold: Downside/Upside by -5% to +5%, Reduce: Downside by 5% to 15%, Sell: Downside by>15%

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