

## TECPRO SYSTEMS LTD.

BUY  
CMP Rs300  
TP Rs370

26 May 2011

**Tecpro Systems (TSL) Q4FY11 results were in line with our expectations. Sales registered 31% YoY growth to Rs9.6bn. OPM improved by 30bps YoY to 20.7% and bottom line grew by 21% to Rs1.1bn impacted by higher interest cost. On the basis of current enquiry levels, management foresees good traction of orders from the power and cement sectors.**

### Outlook

Management confirmed that all the orders in the order book are financially closed, minimizing risks of any delay or cancellation. Management doesn't foresee any delay in execution of AP Genco BoP order as it is financially closed and all the required clearances and fuel linkages are in place. Further, the company is expecting sizeable orders from power (CHP, AHP and BoP) and cement (Waste Heat Recovery) sectors in the near future.

### Bottom line impacted by higher interest cost...

In FY11, revenues witnessed a healthy growth of 35% to Rs19.7bn and OPM improved by ~170bps to 15.2%. However, bottom line registered a growth of 24% to Rs1.4bn as it was adversely impacted by higher interest cost which grew by 160% to Rs926mn on account of higher working capital requirement.

### Healthy Order Book & Inflows

Order inflows were up 96% to Rs43.5bn in FY11 mainly led by power sector. The current order book at end of Q4FY11 stands at Rs43.7bn with power sector commanding 84% share. Segment wise Power BoP contributed 48% to the order book followed by Material Handling at 43% and Ash handling at 9%. We believe power sector will continue to dominate the order book.

### VALUATIONS AND RECOMMENDATION

*We expect sales CAGR of 26% (FY11-13E). We expect margins to decline on account of higher share of large ticket size orders entailing long execution cycle and higher working capital requirement, but still they would remain healthy. At CMP the stock is attractively valued at 9.5x FY12E given strong order book, healthy margins and robust order pipeline. We maintain 'BUY' with a target price of Rs370 (12x FY12E).*

### KEY FINANCIALS (STANDALONE) (Rs mn)

	FY09	FY10	FY11P	FY12E	FY13E
Net Sales	7,070	14,549	19,684	26,050	31,065
YoY Gr (%)	46.9	105.8	35.3	32.3	19.2
Op.Profits	834	1,904	2,957	3,462	4,066
OPM (%)	11.8	13.1	15.0	13.3	13.1
Adj Net Profit	507	1,096	1,362	1,587	1,964
YoY Gr (%)	31.4	116.3	24.2	16.5	23.8

### KEY RATIOS

Dil EPS (Rs)	18.3	24.8	27.0	31.4	38.9
ROCE (%)	46.1	37.1	26.8	23.1	23.2
RoE (%)	38.7	42.8	26.4	21.2	21.7
PER (x)	16.4	12.1	11.1	9.5	7.7
EV/Net Sales (x)	1.2	1.1	1.0	0.9	0.8
EV/EBITDA	9.6	8.2	6.5	6.4	5.8

Ankit Babel +91-22-6618 6551  
ankit.b@pinc.co.in

Vinod Nair +91-22-6618 6379  
vinod.nair@pinc.co.in

### QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended	
	Dec-10	Mar-11
Net Sales	4,611	9,609
YoY Gr (%)	66.5	30.8
Op. Profit	516	1,992
OPM (%)	11.2	20.7
Adj.Net Profit	199	1,097
YoY Gr (%)	70.5	20.7

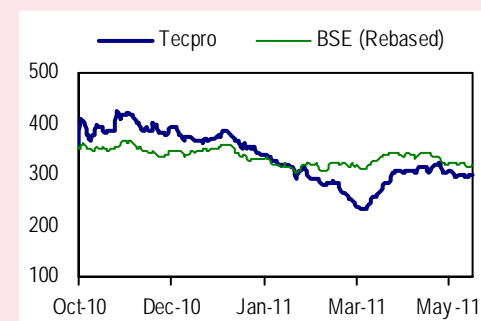
### STOCK DATA

Market Cap	Rs15.1bn.
Book Value per share	Rs134.4
Eq Shares O/S (F.V. Rs10)	504.7mn.
Free Float	47.4%
Avg Traded Value (6 mnths)	Rs3.1mn
52 week High/Low	Rs454/225
Bloomberg Code	TPROIN
Reuters Code	TPSL.BO

### PERFORMANCE (%)

	1M	3M	6M
Absolute	(4.6)	3.1	(15.5)
Relative	1.4	2.4	(6.2)

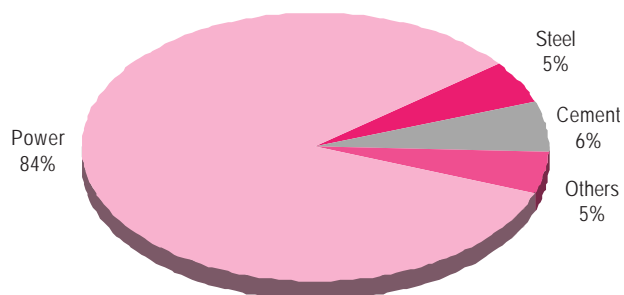
### RELATIVE PERFORMANCE



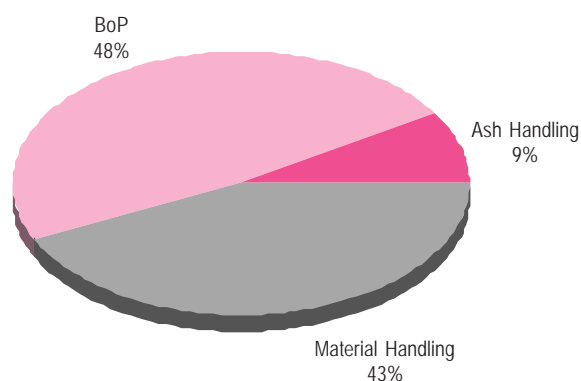
Financial Performance (Standalone)						
Particulars (Rs mn)	Q4FY11	Q4FY10	YoY (%)	FY11	FY10	YoY(%)
<b>Gross Sales</b>	<b>9,609</b>	<b>7,346</b>	<b>30.8</b>	<b>19,684</b>	<b>14,549</b>	<b>35</b>
Excise Duty	-	-	-	-	-	-
<b>Net Sales</b>	<b>9,609</b>	<b>7,346</b>	<b>30.8</b>	<b>19,684</b>	<b>14,549</b>	<b>35</b>
Other Op. Income	2	59	(96)	50	80	(38)
<b>Total Income</b>	<b>9,611</b>	<b>7,405</b>	<b>29.8</b>	<b>19,734</b>	<b>14,630</b>	<b>35</b>
Raw Material Consumed	6,765	5,215	29.7	14,486	10,876	33.2
Employee Expenses	290	187	54.9	913	628	45.3
Other Expenses	564	492	14.8	1,328	1,141	16.4
<b>TOTAL EXPENDITURE</b>	<b>7,619</b>	<b>5,894</b>	<b>29.3</b>	<b>16,728</b>	<b>12,646</b>	<b>32.3</b>
<b>Operating Profit</b>	<b>1,992</b>	<b>1,511</b>	<b>31.8</b>	<b>3,007</b>	<b>1,984</b>	<b>51.5</b>
Other Income	49	39	26.2	122	129	(5.3)
<b>PBIDT</b>	<b>2,041</b>	<b>1,550</b>	<b>31.7</b>	<b>3,129</b>	<b>2,113</b>	<b>48.1</b>
Interest	321	136	136.0	926	356	159.9
<b>PBDT</b>	<b>1,720</b>	<b>1,414</b>	<b>21.6</b>	<b>2,203</b>	<b>1,757</b>	<b>25.4</b>
Depreciation	25	23	9.4	103	73	40.3
<b>PBT</b>	<b>1,694</b>	<b>1,391</b>	<b>21.8</b>	<b>2,100</b>	<b>1,684</b>	<b>24.8</b>
Tax	597	482	23.9	738	587	25.7
<b>RPAT</b>	<b>1,097</b>	<b>909</b>	<b>20.7</b>	<b>1,362</b>	<b>1,096</b>	<b>24.2</b>
<b>OPM (%)</b>	<b>20.7</b>	<b>20.4</b>		<b>15.2</b>	<b>13.6</b>	
<b>NPM (%)</b>	<b>11.4</b>	<b>12.3</b>		<b>6.9</b>	<b>7.5</b>	

Source: Company, PINC Research

**Order Book - Sector wise break up**



**Order Book - Segment wise break up**



Source: Company, PINC Research

**Standalone Financials**

Year Ended March (Figures in Rs mn)

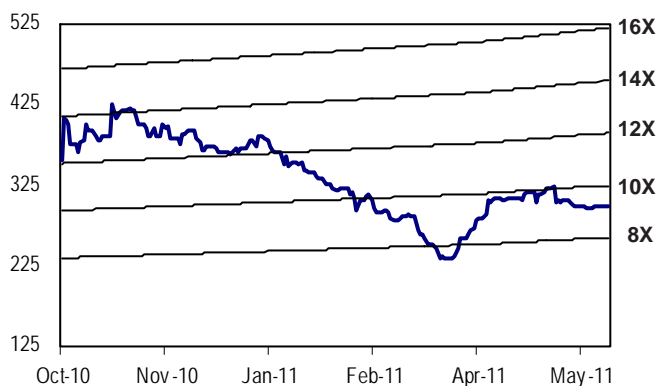
Income Statement	FY09	FY10	FY11P	FY12E	FY13E
Net Sales	7,070	14,549	19,684	26,050	31,065
Growth (%)	46.9	105.8	35.3	32.3	19.2
Operating profit	834	1,904	2,957	3,462	4,066
Other operating income	40	78	50	78	93
<b>EBITDA</b>	<b>874</b>	<b>1,982</b>	<b>3,007</b>	<b>3,540</b>	<b>4,160</b>
Growth (%)	28.6	126.8	51.7	17.7	17.5
Depreciation	(31)	(73)	(103)	(123)	(135)
Other income	51	131	122	156	186
<b>EBIT</b>	<b>894</b>	<b>2,040</b>	<b>3,026</b>	<b>3,573</b>	<b>4,211</b>
Interest paid	(75)	(356)	(926)	(1,205)	(1,280)
<b>PBT (before E/o items)</b>	<b>819</b>	<b>1,684</b>	<b>2,100</b>	<b>2,368</b>	<b>2,931</b>
Tax provision	(312)	(587)	(738)	(781)	(967)
E/o Income / (loss)	-	-	-	-	-
<b>Net profit</b>	<b>507</b>	<b>1,096</b>	<b>1,362</b>	<b>1,587</b>	<b>1,964</b>
Adjusted net profit	507	1,096	1,362	1,587	1,964
Growth (%)	31.4	116.3	24.2	16.5	23.8
<b>Diluted EPS (Rs)</b>	<b>18.3</b>	<b>24.8</b>	<b>27.0</b>	<b>31.4</b>	<b>38.9</b>
Diluted EPS Growth (%)	31.4	35.5	8.9	16.5	23.8

Cash Flow Statement	FY09	FY10	FY11P	FY12E	FY13E
Pre-tax profit	819	1,684	2,100	2,368	2,931
Depreciation	31	80	103	123	135
Total tax paid	(269)	(626)	(738)	(781)	(967)
Chg in working capital	(241)	(3,765)	(4,108)	(4,207)	(3,102)
Other operating activities	144	629	926	1,205	1,280
<b>Cash flow from oper. (a)</b>	<b>484</b>	<b>(1,998)</b>	<b>(1,717)</b>	<b>(1,292)</b>	<b>276</b>
Capital expenditure	(419)	(433)	(396)	(200)	(200)
Chg in investments	(69)	(85)	(275)	-	-
Other investing activities	50	136	-	-	-
<b>Cash flow from inv. (b)</b>	<b>(438)</b>	<b>(383)</b>	<b>(672)</b>	<b>(200)</b>	<b>(200)</b>
<b>Free cash flow (a+b)</b>	<b>47</b>	<b>(2,381)</b>	<b>(2,389)</b>	<b>(1,492)</b>	<b>76</b>
Equity raised/(repaid)	240	90	2,219	-	-
Debt raised/(repaid)	615	3,673	2,601	1,134	1,075
Chg in Minorities int.	-	-	-	-	-
Dividend (incl. tax)	(219)	(162)	(154)	(179)	(221)
Other financing activities	(128)	(355)	(926)	(1,205)	(1,280)
<b>Cash flow from fin. (c)</b>	<b>508</b>	<b>3,246</b>	<b>3,740</b>	<b>(250)</b>	<b>(426)</b>
<b>Net chg in cash (a+b+c)</b>	<b>555</b>	<b>865</b>	<b>1,351</b>	<b>(1,742)</b>	<b>(350)</b>

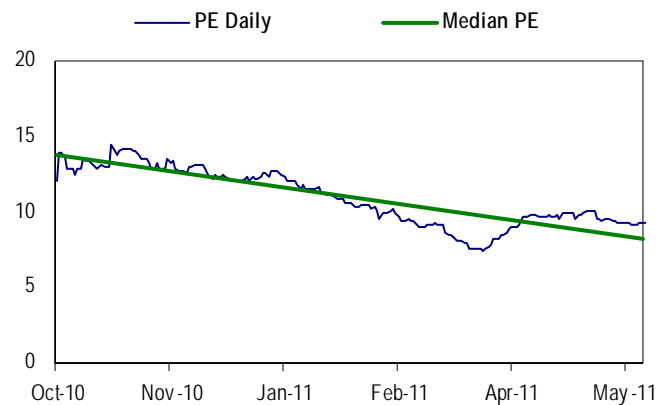
Balance Sheet	FY09	FY10	FY11P	FY12E	FY13E
Equity capital	277	442	505	505	505
Reserves & surplus	1,324	3,080	6,279	7,686	9,429
<b>Shareholders' funds</b>	<b>1,601</b>	<b>3,522</b>	<b>6,783</b>	<b>8,191</b>	<b>9,934</b>
Pref. Share Capital	-	-	-	-	-
Total Debt	998	4,868	7,469	8,603	9,678
<b>Capital Employed</b>	<b>2,599</b>	<b>8,390</b>	<b>14,252</b>	<b>16,794</b>	<b>19,611</b>
Net fixed assets	812	1,318	1,612	1,689	1,754
Cash & Cash Eq.	955	1,820	2,992	1,250	900
Net other CA	609	5,145	9,253	13,460	16,562
Investments	228	94	370	370	370
Net Deferred Tax Assets	(6)	12	26	26	26
<b>Total assets</b>	<b>2,599</b>	<b>8,390</b>	<b>14,252</b>	<b>16,794</b>	<b>19,611</b>

Key Ratios	FY09	FY10	FY11P	FY12E	FY13E
EBITDA Margin (%)	12.3	13.5	15.2	13.5	13.3
Net margin (%)	7.1	7.4	6.9	6.0	6.3
Dividend yield (%)	1.7	1.0	1.0	1.0	1.0
Net debt/Equity (x)	0.6	1.4	1.1	1.1	1.0
Net Working Capital (days)	31	128	171	188	194
Asset turnover (x)	20.8	10.5	10.6	12.7	13.8
ROCE (%)	46.1	37.1	26.8	23.1	23.2
RoE (%)	38.7	42.8	26.4	21.2	21.7
EV/Net sales (x)	1.2	1.1	1.0	0.9	0.8
EV/EBITDA (x)	9.6	8.2	6.5	6.4	5.8
PER (x)	16.4	12.1	11.1	9.5	7.7
Price/Book (x)	5.2	3.8	2.2	1.8	1.5

**P/E Band**



**Median P/E v/s Daily P/E**



**T E A M**

**EQUITY DESK**

Sadanand Raje	Head - Institutional Sales Technical Analyst	sadanand.raje@pinc.co.in	91-22-6618 6366
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**RESEARCH**

Vineet Hetamasaria, CFA	<b>Head of Research</b> , Auto, Cement	vineet.hetamasaria@pinc.co.in	91-22-6618 6388
Nikhil Deshpande	Auto, Auto Ancillary, Cement	nikhil.deshpande@pinc.co.in	91-22-6618 6339
Tasmai Merchant	Auto, Auto Ancillary, Cement	tasmai.merchant@pinc.co.in	91-22-6618 6377
Vinod Nair	Construction, Power, Capital Goods	vinod.nair@pinc.co.in	91-22-6618 6379
Ankit Babel	Capital Goods	ankit.b@pinc.co.in	91-22-6618 6551
Hitul Gutka	Power	hitul.gutka@pinc.co.in	91-22-6618 6410
Subramaniam Yadav	Construction	subramaniam.yadav@pinc.co.in	91-22-6618 6371
Madhura Joshi	Power	madhura.joshi@pinc.co.in	91-22-6618 6395
Satish Mishra	Fertiliser, Natural Gas, Engineering	satish.mishra@pinc.co.in	91-22-6618 6488
Urvashi Biyani	Fertiliser, Natural Gas, Engineering	urvashi.biyani@pinc.co.in	91-22-6618 6334
Naveen Trivedi	FMCG	naveent@pinc.co.in	91-22-6618 6384
Rohit Kumar Anand	IT Services	rohit.anand@pinc.co.in	91-22-6618 6372
Ronak Bakshi	IT Services	ronak.bakshi@pinc.co.in	91-22-6618 6411
Namrata Sharma	Media	namrata.sharma@pinc.co.in	91-22-6618 6412
Sakshee Chhabra	Media	sakshee.chhabra@pinc.co.in	91-22-6618 6633
Bikash Bhalotia	Metals, Mining	bikash.bhalotia@pinc.co.in	91-22-6618 6387
Harleen Babber	Metals, Mining	harleen.babber@pinc.co.in	91-22-6618 6389
Dipti Vijaywargi	Metals, Mining	dipti.vijaywargi@pinc.co.in	91-22-6618 6393
Sushant Dalmia, CFA	Pharma	sushant.dalmia@pinc.co.in	91-22-6618 6462
Suman Memani	Real Estate, Mid caps	suman.memani@pinc.co.in	91-22-6618 6479
Abhishek Kumar	Real Estate, Mid caps	abhishek.kumar@pinc.co.in	91-22-6618 6398
C Krishnamurthy	Technical Analyst	krishnamurthy.c@pinc.co.in	91-22-6618 6747

**SALES**

Rajeev Gupta	Equities	rajeev.gupta@pinc.co.in	91-22-6618 6486
Ankur Varman	Equities	ankur.varman@pinc.co.in	91-22-6618 6380
Himanshu Varia	Equities	himanshu.varia@pinc.co.in	91-22-6618 6342
Shailesh Kadam	Derivatives	shaileshk@pinc.co.in	91-22-6618 6349
Ganesh Gokhale	Derivatives	ganeshg@pinc.co.in	91-22-6618 6347

**DEALING**

Mehul Desai	Head - Sales Trading	mehul.desai@pinc.co.in	91-22-6618 6303
Naresh Panjnani	Co-Head - Sales Trading	naresh.panjnani@pinc.co.in	91-22-6618 6333
Amar Margaje		amar.margaje@pinc.co.in	91-22-6618 6327
Ashok Savla		ashok.savla@pinc.co.in	91-22-6618 6321
Sajjid Lala		sajjid.lala@pinc.co.in	91-22-6618 6337
Raju Bhavsar		rajub@pinc.co.in	91-22-6618 6322
Kinjal Mehta		kinjal.mehta@pinc.co.in	91-22-6618 6333
Chandani Bhatia		chandani.bhatia@pinc.co.in	91-22-6618 6324
Hasmukh D. Prajapati		hasmukhp@pinc.co.in	91-22-6618 6325
Kamlesh Purohit		kamlesh.purohit@pinc.co.in	91-22-6618 6357

**SINGAPORE DESK**

Amul Shah		amul.shah@sg.pinc.co.in	65-6327 0626
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**DIRECTORS**

Gaurang Gandhi		gaurangg@pinc.co.in	91-22-6618 6400
Hemang Gandhi		hemangg@pinc.co.in	91-22-6618 6400
Ketan Gandhi		ketang@pinc.co.in	91-22-6618 6400

**COMPLIANCE**

Rakesh Bhatia	Head Compliance	rakeshb@pinc.co.in	91-22-6618 6400
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