

RESULTS

REVIEW

Tecpro Systems Ltd.

Order pipeline strong; close eye on working capital

BUY

Analyst

Rohit Singh

+91-22-4322 1186

rohit.singh@idbicapital.com

Nifty: 5,532; Sensex: 18,202

CMP	Rs189
Target Price	Rs260
Potential Upside/Downside	+38%

Key Stock Data

Sector	Capital Goods
Bloomberg / Reuters	TPRO IN / TPSL.BO
Shares o/s (mn)	50.5
Market cap. (Rs mn)	9,529
Market cap. (US\$ mn)	193
3-m daily average vol.	8,431

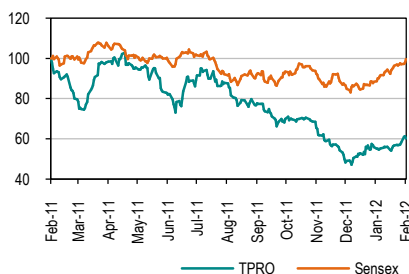
Price Performance

52-week high/low	Rs328/141
	-1m -3m -12m
Absolute (%)	9 (8) (40)
Rel to Sensex (%)	(3) (16) (39)

Shareholding Pattern (%)

Promoters	52.6
FII/IRIs/OCBs/GDR	32.9
MFs/Banks/FIs	8.3
Non Promoter Corporate	2.4
Public & Others	3.8

Relative to Sensex



Summary

Tecpro Systems Ltd. (Tecpro) reported Q3FY12 revenue 1% below our estimate at Rs6.3 bn, up 36% YoY/38% QoQ. OPM dropped significantly by 140bps YoY/180 bps QoQ to 9.7% vs. IDBIest 11.5%. Consequently, EBITDA was 16% below our estimate at Rs609 mn. Tecpro's forex gain due to adoption of AS11 stood at Rs24.2 mn. Despite, recovery of interest expenses worth Rs115.8 mn pertaining to H1FY12, interest cost expanded 74% YoY. High interest cost and low OPM led to 26% YoY decline in PAT at Rs147 mn (-32% vs. IDBIest. Rs215 mn).

Tecpro has an order backlog of Rs46 bn (2.3x FY11 revenue). The company has cut order inflow guidance by 50% to Rs25 bn due to delay in finalization of one BoP order during FY12. However, revised order inflow is in line with our conservative assumption of Rs24.5 bn. Going forward, company with strong order backlog and huge order pipeline (already submitted bid for Rs150 bn+) provides fair visibility. We maintain our revenue/PAT CAGR of 28%/20% over FY11-14E.

At CMP of Rs189, TPRO trades at 6.2/5.6x of our FY12/FY13E earnings of Rs30.6/33.6 respectively. Maintain BUY with unchanged target price of Rs260.

Result Highlights

- Order book robust; inflow slows down

TPRO reported an order inflow of Rs7.7 bn/Rs 16.4 bn for Q3/9MFY12. The company secured one major order worth Rs4 bn from NTPC (extension of earlier CHP order at Pakri Barwadih). Order book at the end of Q3FY12 stood at Rs46 bn (2.3x FY11 revenue). Moreover, Tecpro is L1 in orders worth Rs7.5 bn, which are expected to get finalized by end-FY12. These orders' intake would enable Tecpro to end FY12 with an order inflow of ~Rs25 bn (IDBIest. Rs24.5 bn vs. management's earlier guidance of Rs50 bn). Moreover, the Company has submitted bid for more than Rs150 bn orders, of which 80% of the orders are expected to be awarded in next 3-6 months.

Figure: O/B sector-wise break-up

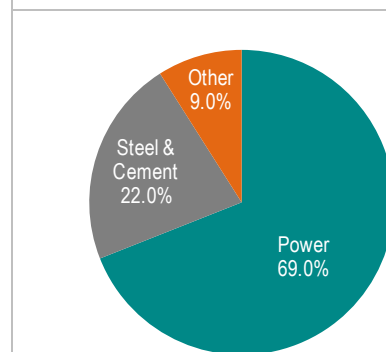
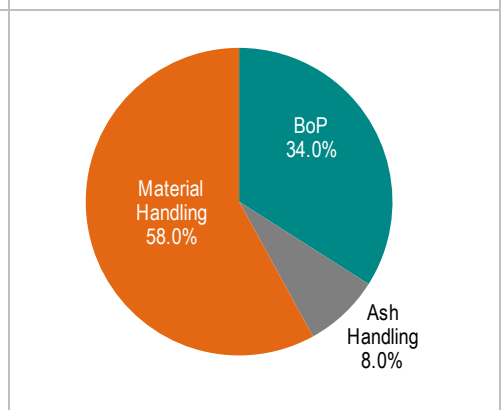


Figure: O/B segment-wise break-up



Source: Company; IDBI Capital Research

Table: Financial snapshot

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	P/E (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY10	14,549	2,262	15.5	1,097	24.8	7.6	5.0	42.8	39.8
FY11	19,673	3,243	16.5	1,325	26.2	7.2	4.9	31.7	30.3
FY12E	25,265	3,660	14.5	1,543	30.6	6.2	4.0	27.5	24.2
FY13E	32,671	4,243	13.0	1,694	33.6	5.6	4.4	23.4	21.8

Source: Company; IDBI Capital Research

■ Interest expense continues to remain a pain

Despite interest recovery of Rs116 mn pertaining to Q1 and Q2FY12, TPRO's Q3FY12 interest expense stood at Rs368 mn, up by 74% YoY. Adjusting for interest recovery, interest cost increased by 129% YoY/42% QoQ mainly due to 1) higher than anticipated interest on advances (11.5%) 2) rise in working capital debt by 59% YoY to Rs15.5 bn. Receivables are expected to go down during Q4FY12 as large chunk of collection happens in last quarter. However, execution of bigger orders' would keep net w/c cycle stretched going forward.

Outlook and Valuation

Tecpro has an order backlog of Rs46 bn (2.3x FY11 revenue). The company has cut order inflow guidance by 50% to Rs25 bn due to delay in finalization of one BoP order during FY12. However, revised order inflow is in line with our conservative assumption of Rs24.5 bn. Going forward, company with strong order backlog and huge order pipeline (already submitted bid for Rs150 bn+) provides fair visibility. We maintain our revenue/PAT CAGR of 28%/20% over FY11-14E.

At CMP of Rs189, TPRO trades at 6.2/5.6x of our FY12/FY13E earnings of Rs30.6/33.6 respectively. Maintain **BUY** with unchanged target price of Rs260.

Table: Quarterly snapshot

(Rs mn)

Year-end: March	Q3FY11	Q2FY12	Q3FY12	YoY (%)	QoQ (%)
Inc. from ops.	4,611	4,522	6,252	36	38
Other ops income	9	10	15	63	52
Total	4,620	4,531	6,267	36	38
Expenditure	4,105	4,012	5,658	38	41
(Inc)/ Dec in stock in trade and WIP	70	(345)	(180)	-	-
Consumption of raw materials	505	330	476	(6)	45
Purchase of traded goods	609	409	952	56	133
Contract costs	2,210	2,759	3,614	64	31
Other direct costs	195	185	186	(5)	0
Employee costs	223	274	283	27	3
Other Expenditure	293	401	327	12	(18)
EBITDA	515	520	609	18	17
<i>EBITDA margin (%)</i>	<i>11.1</i>	<i>11.5</i>	<i>9.7</i>	-	-
Depreciation and Amortization	28	30	37	34	24
PBIT	487	490	572	17	17
Other income	29	38	19	(32)	(48)
Interest expense	211	400	368	74	(8)
PBT	304	127	223	(27)	76
<i>PBT margin (%)</i>	<i>6.6</i>	<i>2.8</i>	<i>3.6</i>	-	-
Tax expense	106	41	76	(28)	86
Net profit	198	86	147	(26)	71
<i>Net margin</i>	<i>4.3</i>	<i>1.9</i>	<i>2.3</i>	-	-
Basic EPS (Rs)	3.9	1.7	2.9	(26)	71

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY10	FY11	FY12E	FY13E
Net sales	14,549	19,673	25,265	32,671
Growth (%)	105.8	35.2	28.4	29.3
Operating expenses	(12,287)	(16,430)	(21,605)	(28,429)
EBITDA	2,262	3,243	3,660	4,243
Growth (%)	154.1	43.4	12.8	15.9
Depreciation	(73)	(104)	(131)	(158)
EBIT	2,189	3,139	3,529	4,085
Interest paid	(714)	(1,231)	(1,317)	(1,622)
Other income	209	155	155	155
Pre-tax profit	1,684	2,064	2,367	2,619
Tax	(587)	(739)	(824)	(925)
Effective tax rate (%)	34.9	35.8	34.8	35.3
Net profit	1,097	1,325	1,543	1,694
Adjusted net profit	1,097	1,325	1,543	1,694
Growth (%)	116.3	20.8	16.5	9.8
Shares o/s (mn nos)	44	50	50	50

Balance Sheet

(Rs mn)

Year-end: March	FY10	FY11	FY12E	FY13E
Net fixed assets	1,318	2,012	1,842	2,140
Investments	94	76	76	76
Other non-curr assets	12	25	25	25
Current assets	14,783	21,373	30,322	36,622
Inventories	1,061	1,399	1,812	2,369
Sundry Debtors	9,176	14,057	16,613	22,378
Cash and Bank	1,819	1,148	5,322	3,372
Loans and advances	741	1,197	1,730	2,238
Total assets	16,208	23,486	32,265	38,863
Shareholders' funds	3,521	4,841	6,384	8,078
Share capital	442	505	505	505
Reserves & surplus	3,079	4,336	5,879	7,573
Total Debt	4,868	7,469	10,519	12,419
Secured loans	4,858	7,469	10,519	12,419
Unsecured loans	10	-	-	-
Other liabilities	4,868	7,469	10,519	12,419
Curr Liab & prov	8,263	11,706	15,979	19,049
Current liabilities	7,819	11,177	15,363	18,367
Provisions	444	530	616	682
Total liabilities	12,687	18,645	25,881	30,786
Total equity & liabilities	16,208	23,486	32,265	38,863
Book Value (Rs)	80	96	126	160

Cash Flow Statement

(Rs mn)

Year-end: March	FY10	FY11	FY12E	FY13E
Profit Before Tax	1,684	2,064	2,367	2,619
Depreciation	73	104	131	158
Cash Used in Operations	2,398	3,403	2,499	2,776
Taxes (Paid)	(410)	(703)	(824)	(925)
Cash flow from WC changes	(4,536)	(3,903)	(590)	(5,246)
Cash flow from Operating activities (a)	(2,137)	(1,202)	1,085	(3,394)
(Purchase)/Sale of fixed assets	(620)	(788)	39	(456)
Purchase/Sale of investments	134	18	-	-
Cash flow from investing activities (b)	(338)	(667)	39	(456)
Secured loan	3,952	2,611	3,050	1,900
Unsecured loan	(82)	(10.0)	-	-
Equity share capital	165	62.7	-	-
Cash flow from financing activities (c)	2,990	1,198	3,050	1,900
Change in Cash & Cash Equivalents	515	(671)	4,174	(1,950)
Opening Cash & Cash Equivalents	1,304	1,819	1,148	5,322
Net cash	1,819	1,148	5,322	3,372

Financial Ratios

Year-end: March	FY10	FY11	FY12E	FY13E
Adj EPS (Rs)	24.8	26.2	30.6	33.6
Adj EPS growth (%)	35.6	5.8	16.5	9.8
EBITDA margin (%)	15.5	16.5	14.5	13.0
Pre-tax margin (%)	11.6	10.5	9.4	8.0
ROE (%)	42.8	31.7	27.5	23.4
ROCE (%)	39.8	30.3	24.2	21.8
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.2	1.0	0.9	0.9
Leverage factor (x)	4.6	4.7	5.0	4.9
Net margin (%)	7.5	6.7	6.1	5.2
Net Debt/Equity (x)	0.9	1.3	0.8	1.1
Working Capital & Liquidity ratio				
Inventory days	27	26	26	26
Receivable days	230	261	240	250
Payable days	182	210	201	191

Valuation

Year-end: March	FY10	FY11	FY12E	FY13E
P/E (x)	7.6	7.2	6.2	5.6
Price / Book value (x)	2.4	2.0	1.5	1.2
PCE (x)	7.1	6.7	5.7	5.1
EV / Net sales (x)	0.8	0.8	0.6	0.6
EV / EBITDA (x)	5.0	4.9	4.0	4.4
Dividend Yield (%)	1.6	1.6	2.0	2.2



Notes

Sonam H. Udasi – Head Research	(91-22) 4322 1375	sonam.udasi@idbicapital.com
Dealing	(91-22) 6637 1150	dealing@idbicapital.com

Key to Ratings**Stocks:**

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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Equity Research Desk

3rd Floor, Mafatnal Centre, Nariman Point, Mumbai – 400 021. Phones: (91-22) 4322 1212; Fax: (91-22) 2285 0785; Email: info@idbicapital.com

SEBI Registration: NSE CM – INB230706631, NSE F&O – INF230706631, BSE CM – INB010706639, BSE F&O – INF010706639, NSDL – IN-DP-NSDL-12-96

Compliance Officer: Christina Fernandes; Email: compliance@idbicapital.com; Telephone: (91-22) 4322 1212

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