

## Tecpro Systems Ltd (TSL)

No. of Shares (Crore)	5.05
Face value	10.00
Mkt cap (Rs crs)	1401.05
Price (07/07/2011)	277.60
Book Value (Rs.)	134.41
P/BV	2.1
BSE Code	533266
NSE Code	TECPRO
Bloomberg	TPRO IN
Reuters	TPSL.BO
Daily volume (avg weekly)	43093
52 W H/L (Rs.)	454.25 / 214.50

## Shareholding pattern

	%
Promoters	52.60
MFs / Banks / FIs	8.38
Foreign	34.58
Govt. Holding	0.00
Non-Promoter Corp.	1.32
Total Public	3.13
<b>Total</b>	<b>100.00</b>

As on 31st March, 11

## Recommendation

**BUY**

## Analyst

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## Company Brief

Tecpro Systems provides turnkey solutions in material handling, coal handling and ash handling. It also undertakes Balance of Plant (BoP) and EPC contracts for the power sector.

## Highlights

- Tecpro is bullish on the power sector in India due to mega expansion plans of Indian government during XIIth Plan. Specifically, it is focusing on larger turnkey projects in material handling & ash handling systems in Ultra Mega Power Projects and BoP projects to leverage economies of scale.
- The order book got an uplift last fiscal due to inflow of large BoP projects from Andhra Pradesh Power Generation Company. The Company is scouting for BoP orders where financial closure is achieved and boiler, turbine & generator (BTG) orders have been awarded to avoid delays and cancellations. This strategy will fasten execution period and will thus propel revenues.
- Tecpro in past few months forged technical tie ups with globally renowned players like Advanced Conveyor Technologies, Inc (AC-Tek) of USA, Nanjing Triumph Kaineng Environment and Energy Company (NTK), China and Pneuplan Oy, Finland for various new business ventures. These new tie ups will help it bag sizeable orders from cement and power sectors.
- The stock is currently trading at 8 x FY12E earnings per share of Rs 34.63. Earning is estimated to grow by 28% in current fiscal on revenue growth of 36%. **Considering sturdy growth potential, healthy financials and reasonable valuation, we retain our buy recommendation on the stock with a revised target of Rs 450 (previous target Rs 466) based on 13 x FY12E earnings, over a period of 12 months.** (Please refer to our report dated 30th Nov, 2010 for further details)

Figures in Rs crs	FY08	FY09	FY10	FY11	FY12E
Net revenues	482.40	706.98	1454.93	1968.43	2677.06
Other Income	3.78	9.07	20.92	17.19	20.27
EBITDA	72.69	98.08	247.12	312.87	415.14
Net Profit	41.15	50.69	109.65	136.22	174.76
EPS	15.41	18.30	24.80	26.99	34.63
EPS Growth (%)	70.1	18.7	35.5	8.8	28.3
Equity capital	26.70	27.70	44.22	50.47	50.47

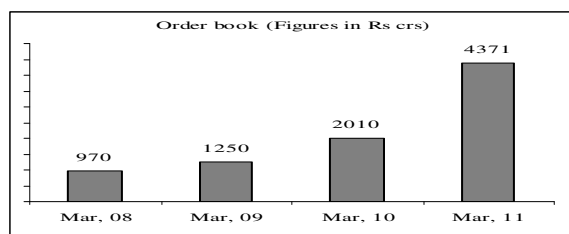
## Strategy

- Enhance order book with large orders by focusing on BoP projects and turnkey projects in material handling & ash handling systems in Ultra Mega Power Projects.
- Bid for EPC projects of larger power plants.
- Acquire expertise in related systems through technical tie-ups and inorganic growth.
- Expand business in Middle East, South East Asia and Africa to strengthen international footprint.
- Maintain effectiveness by enhancing manufacturing facilities and expanding product range.

## Highlights

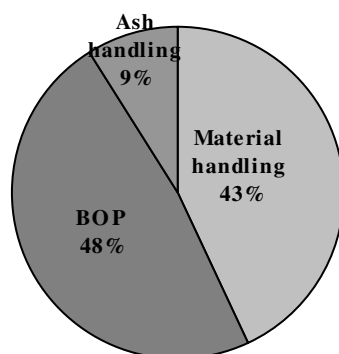
### Robust order inflow

The order inflow of Tecpro almost doubled last fiscal to Rs 4353 crs as driven by large BoP orders worth Rs 1978 crs from Andhra Pradesh Power Generation Company. This large increase in order inflow is testimony to its proven track record and excellent marketing skills.

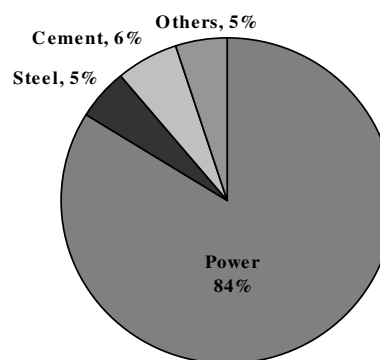


The momentum is expected to last due to expansion of product portfolio which includes forays in waste heat recovery space and dense phase pneumatic conveying systems. Further, the Company will also leverage on its inherent strengths in material handling and BoP space to boost its order book.

### Order book - Segment wise break up



### Order book - Sector wise break up



The power sector has dominated the order book till now and is expected to remain the same way in coming years. Tecpro will seek to undertake a consortium bidding approach for large projects in the BoP and EPC space to bag deals.

Key projects under execution	
APGENCO	BOP, 600MW Ralayaseema
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Chattisgarh State Power	BOP, 500MW Korba
Ultra Tech Cement	Waste Heat Recovery plant
Shree Cement	Waste Heat recovery boiler
Jindal India Thermal Power	Coal handling 2 x 600 MW
Tata Projects, Krishnapatnam	Coal handling 2 x 800 MW
NTPC	Coal handling for Pakri Barwaidh block
Utkal Alumina Refinery	Bauxite handling & crushing
SAIL	Debottlenecking of raw material handling
NTPC	Ash handling 2 x 500 MW
Tata Projects, Krishnapatnam	Ash handling 2 x 800 MW
Lanco	Ash handling 2 x 600 MW
Lilama	Vietnam Ash handling 2 x 600 MW

### Technical tie – ups

Tecpro has forged a tie - up with Advanced Conveyor Technologies, Inc (AC-Tek) of USA for exclusive collaboration on overland conveyor projects in India. AC-Tek is a global leader in design of overland conveying systems. Through this mutual agreement Tecpro and AC Tek will work together in overland conveyor projects, whereby the design will be undertaken by AC-Tek and supply and construction of overland conveyors will be handled by Tecpro.

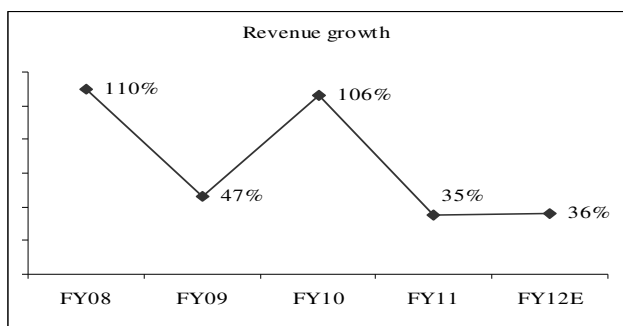
Client	Value (Rs crs)	Scope
Ultra Tech Cement	203.0	EPC for WHR based power plants
Shree Cement	20.8	EPC for waste heat recovery boiler

Tecpro few months back entered into an agreement with Nanjing Triumph Kaineng Environment and Energy Company (NTK), China for executing waste heat power (WHR) projects for Indian cement industry. As per the deal, NTK will provide technology and supply critical equipments like boilers, turbines and generators, whereas Tecpro will undertake Balance of Plant. This tie-up marks Tecpro's entry in the potential ridden Indian WHR space.

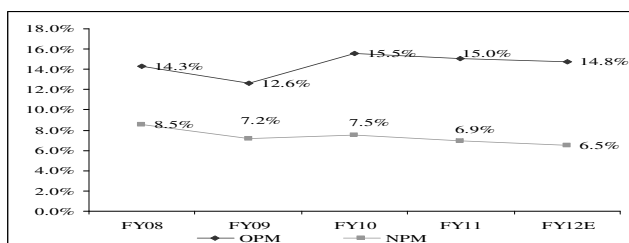
The Company signed a license agreement with Pneuplan Oy, Finland for projects involving dense phase pneumatic conveying for fly ash & allied materials last fiscal. As per the agreement, Pneuplan will give exclusive rights to Tecpro to use the technology for pneumatic extraction and conveying systems, including the information required for designing and selection, technical know-how & drawings required to manufacture specialized products.

## Outlook & Recommendation

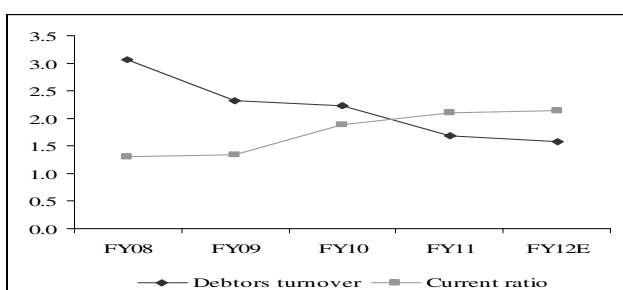
Tecpro would see traction in material handling orders over next few months, thanks to continued government focus on infrastructure development, pick up in private investment and venture in new business segments. The recent tie-up with Advanced Conveyor Technologies, Inc (AC-Tek) of USA for long-distance conveyor has immense business potential as demand for this product is largely unmet till now.



Tecpro has started handling large size BoP / EPC projects to boost its revenues. Revenue is estimated to grow by 36% in the current fiscal bolstered by strong order book and fast execution. Large BOP projects like Ralaysseema Thermal Power Project and Kakatiya Thermal Power Project will gather steam as they enter their second year of execution this fiscal. In addition, the Chattisgarh BoP project which is expected to finish by June, 2012 will also see work ramp up in current year.



The Company would trade off the high margin small size orders with low margin large size orders to register healthy overall margins in current year. Notwithstanding rising raw material prices, the Company will almost maintain margins through higher efficiencies and better project management skills. Operating margin is estimated at 14.8% for FY12 compared to 15% in FY11.



As a result of longer order execution period the working capital requirement surged last fiscal. The current ratio jumped to 2.1 in FY11 from 1.9 in FY10. We expect further tightening in current year due to back end nature of large BoP projects. The Company runs the risk of bloating interest expense due to debt financed working capital. Interest expense is estimated to go up by 44% in the current year.

The stock currently trades at 8 x FY12E EPS of Rs 34.63. We have upwardly revised our EPS estimate for the current year by 4% to factor in better than expected FY11 results. But we assign a lower forward P/E multiple of 13 now (earlier 14) to reflect increasing financial risk. Resultantly, we arrive at a target of Rs 450 (previous target Rs 466) based on projected FY12 earnings over a period of 12 months. (Please refer to our report dated 30th Nov, 2010 for further details).

## Peer Group Comparison

Company	Equity*	CMP	Market cap*	P/E	P/BV	Mkt cap / sales**	Order book*	Order book / sales**	ROE**
BGR Energy	72.16	478.75	3455	10.7	3.4	0.7	7971	1.7	37.5%
Mcnally Bharat	31.09	147.15	457	9.5	1.7	0.3	3950	2.2	19.2%
Elecon Engg.	18.57	74.70	694	9.5	1.7	0.6	1699	1.4	19.7%
Tecpro	50.47	277.60	1401	10.3	2.1	0.7	4371	2.2	26.4%

\* Figures in Rs crs, \*\* calculated on FY11 earnings

## Financials

## Quarterly results

Figures in Rs crs

	Q4FY11	Q4FY10	% chg.	FY11	FY10	% chg.
Net Sales	960.90	734.57	30.8	1968.43	1454.93	35.3
Other Income	5.14	9.83	-47.7	17.19	20.92	-17.8
<b>Total Income</b>	<b>966.04</b>	<b>744.40</b>	<b>29.8</b>	<b>1985.62</b>	<b>1475.85</b>	<b>34.5</b>
Total Expenditure	761.92	589.37	29.3	1672.75	1228.73	36.1
<b>PBIDT</b>	<b>204.12</b>	<b>155.03</b>	<b>31.7</b>	<b>312.87</b>	<b>247.12</b>	<b>26.6</b>
Interest	32.14	13.62	136.0	92.57	71.43	29.6
Depreciation	2.53	2.31	9.5	10.28	7.33	40.2
<b>PBT</b>	<b>169.45</b>	<b>139.10</b>	<b>21.8</b>	<b>210.02</b>	<b>168.36</b>	<b>24.7</b>
Tax	59.71	48.19	23.9	73.80	58.71	25.7
<b>PAT</b>	<b>109.74</b>	<b>90.91</b>	<b>20.7</b>	<b>136.22</b>	<b>109.65</b>	<b>24.2</b>
Extraordinary Item	0.00	0.00	0.0	0.00	0.00	0.0
<b>Net Profit</b>	<b>109.74</b>	<b>90.91</b>	<b>20.7</b>	<b>136.22</b>	<b>109.65</b>	<b>24.2</b>
<b>EPS (F.V. 10)</b>	<b>21.74</b>	<b>20.56</b>	<b>5.8</b>	<b>26.99</b>	<b>24.80</b>	<b>8.8</b>

## Segment results

Figures in Rs crs

	Q4FY11	Q4FY10	% chng	FY11	FY10	% chng
<b><u>Segment Revenue</u></b>						
Material Handling System	960.90	733.61	31.0	1968.43	1426.59	38.0
Setting up power plant / Power supply	0.00	1.26	-100.0	0.00	29.96	-100.0
<b>Sub Total</b>	<b>960.90</b>	<b>734.87</b>	<b>30.8</b>	<b>1968.43</b>	<b>1456.55</b>	<b>35.1</b>
Less: Inter - segment revenue	0.00	0.30	-100.0	0.00	1.62	-100.0
<b>Total segment revenue</b>	<b>960.90</b>	<b>734.57</b>	<b>30.8</b>	<b>1968.43</b>	<b>1454.93</b>	<b>35.3</b>
<b><u>EBIT from each segment</u></b>						
Material Handling System	197.47	167.29	18.0	290.07	208.25	39.3
Setting up power plant / Power supply	0.00	-14.88	-	0.00	-13.90	-
<b>Sub Total</b>	<b>197.47</b>	<b>152.41</b>	<b>29.6</b>	<b>290.07</b>	<b>194.35</b>	<b>49.3</b>
Less: Interest	32.14	13.62	136.0	92.57	35.61	160.0
Add: Other income	4.11	0.31	1225.8	12.52	9.61	30.3
<b>PBT</b>	<b>169.44</b>	<b>139.10</b>	<b>21.8</b>	<b>210.02</b>	<b>168.35</b>	<b>24.8</b>

## Income Statement

Figures in Rs crs

	FY08	FY09	FY10	FY11	FY12E
Net Sales	482.40	706.98	1454.93	1968.43	2677.06
Growth (%)	109.8	46.6	105.8	35.3	36.0
Other Income	3.78	9.07	20.92	17.19	20.27
<b>Total Income</b>	<b>486.18</b>	<b>716.05</b>	<b>1475.85</b>	<b>1985.62</b>	<b>2697.33</b>
Total Expenditure	413.49	617.97	1228.73	1672.75	2282.20
<b>PBIDT</b>	<b>72.69</b>	<b>98.08</b>	<b>247.12</b>	<b>312.87</b>	<b>415.14</b>
Interest	4.43	13.08	71.43	92.57	133.02
<b>PBDT</b>	<b>68.26</b>	<b>85.00</b>	<b>175.69</b>	<b>220.30</b>	<b>282.11</b>
Depreciation	2.30	3.12	7.33	10.28	13.25
Tax	24.81	31.19	58.71	73.80	94.10
<b>Reported PAT</b>	<b>41.15</b>	<b>50.69</b>	<b>109.65</b>	<b>136.22</b>	<b>174.76</b>
Extraordinary item	0.00	0.00	0.00	0.00	0.00
<b>Adj PAT after EO item</b>	<b>41.15</b>	<b>50.69</b>	<b>109.65</b>	<b>136.22</b>	<b>174.76</b>
EPS (Rs.)	15.41	18.30	24.80	26.99	34.63

## Balance Sheet

Figures in Rs crs

	FY08	FY09	FY10	FY11	FY12E
<b>SOURCES OF FUNDS</b>					
Share Capital	26.70	27.70	44.22	50.47	50.47
Reserves	74.51	132.40	307.96	627.88	781.97
<b>Total Shareholders Funds</b>	<b>101.21</b>	<b>160.10</b>	<b>352.18</b>	<b>678.35</b>	<b>832.44</b>
Total Debt	28.65	99.75	486.79	746.86	1067.36
<b>Total Liabilities</b>	<b>129.86</b>	<b>259.85</b>	<b>838.97</b>	<b>1425.21</b>	<b>1899.80</b>
<b>APPLICATION OF FUNDS</b>					
<b>Gross Block</b>	25.17	34.17	139.67	185.31	235.31
Accumulated dep	4.36	7.45	18.84	29.12	42.37
<b>Net Block</b>	<b>20.81</b>	<b>26.72</b>	<b>120.83</b>	<b>156.19</b>	<b>192.94</b>
Capital Work in Progress	21.61	54.47	11.01	5.00	10.00
Investments	15.59	22.81	9.42	36.96	36.96
<b><u>Current Assets, Loans &amp; Advances</u></b>					
Inventory	32.90	79.32	106.14	139.89	181.86
Sundry Debtors	221.41	387.48	917.59	1407.34	1970.28
Cash and Bank	40.02	95.50	182.01	299.15	345.68
Loans and Advances	12.60	51.25	272.65	493.40	605.41
<b>Total CA &amp; LA</b>	<b>306.93</b>	<b>613.55</b>	<b>1478.39</b>	<b>2339.78</b>	<b>3103.23</b>
Current liabilities	191.75	414.92	737.42	1062.37	1382.60
Provisions	42.63	42.21	44.45	52.93	63.31
<b>Total Current Liabilities</b>	<b>234.38</b>	<b>457.13</b>	<b>781.87</b>	<b>1115.30</b>	<b>1445.91</b>
<b>Net Current Assets</b>	<b>72.55</b>	<b>156.42</b>	<b>696.52</b>	<b>1224.48</b>	<b>1657.32</b>
Miscellaneous Expenses not w/o	0.00	0.00	0.00	0.00	0.00
Net Deferred Tax	-0.70	-0.57	1.19	2.58	2.58
<b>Total Assets</b>	<b>129.86</b>	<b>259.85</b>	<b>838.97</b>	<b>1425.21</b>	<b>1899.80</b>

## Cash Flow Statement

Figures in Rs crs

	FY08	FY09	FY10	FY11	FY12E
Net Income (a)	41.15	50.69	109.65	136.22	174.76
<b>Add: Non cash exp. (b)</b>	<b>-0.03</b>	<b>2.53</b>	<b>8.98</b>	<b>-5.33</b>	<b>13.25</b>
Depreciation	2.30	3.12	7.33	10.28	13.25
Deferred tax	0.24	0.13	-1.74	0.00	0.00
Misc. exp written off	0.00	0.00	0.00	0.00	0.00
Other adjustments	-2.57	-0.72	3.39	-15.61	0.00
<b>(Increase) / decrease in NWC (c)</b>	<b>-32.34</b>	<b>-22.73</b>	<b>-360.65</b>	<b>-413.01</b>	<b>-389.26</b>
Change in inventory	-9.04	-46.42	-22.68	-33.75	-41.97
Change in debtors	-127.49	-166.07	-353.02	-489.75	-562.94
Change in loans & advances	-6.46	-38.65	-196.91	-220.75	-112.01
Change in Current liabilities	100.21	223.17	209.04	324.95	320.23
Change in provisions	10.44	5.24	2.92	6.29	7.43
<b>Operating cash flow (a+b+c)</b>	<b>8.78</b>	<b>30.49</b>	<b>-242.02</b>	<b>-282.12</b>	<b>-201.25</b>
Capex	-24.87	-41.91	-43.32	-39.63	-55.00
Investments	-0.78	-6.34	-4.94	-27.54	0.00
Others	0.00	0.00	31.66	0.00	0.00
<b>Investing cash flow (d)</b>	<b>-25.65</b>	<b>-48.25</b>	<b>-16.60</b>	<b>-67.17</b>	<b>-55.00</b>
Net borrowings	5.92	71.10	352.30	260.07	320.50
Dividends paid	-7.37	-21.86	-16.20	-15.52	-17.71
Equity financing	33.32	24.00	9.03	221.88	0.00
<b>Financing cash flow (e)</b>	<b>31.87</b>	<b>73.24</b>	<b>345.13</b>	<b>466.43</b>	<b>302.79</b>
<b>Net change (a+b+c+d+e)</b>	<b>15.00</b>	<b>55.48</b>	<b>86.51</b>	<b>117.14</b>	<b>46.53</b>



## Key financial ratios

	FY08	FY09	FY10	FY11	FY12E
<b>Growth Ratios</b>					
Revenue (%)	109.8	46.6	105.8	35.3	36.0
PBIDT (%)	88.0	34.9	152.0	26.6	32.7
Net Profit (%)	95.2	23.2	116.3	24.2	28.3
EPS (%)	70.1	18.7	35.5	8.8	28.3
<b>Margins</b>					
Operating Profit Margin (%)	14.3	12.6	15.5	15.0	14.8
Net Profit Margin (%)	8.5	7.2	7.5	6.9	6.5
<b>Return</b>					
ROCE (%)	44.8	32.7	33.0	20.2	18.5
RONW (%)	54.1	38.8	42.8	26.4	23.1
<b>Valuations</b>					
Market Cap / Sales	NA	NA	NA	0.7	0.5
EV/EBIDTA	NA	NA	NA	6.0	4.5
P / E	NA	NA	NA	10.4	8.0
P / BV	NA	NA	NA	2.1	1.7
<b>Other Ratios</b>					
Debt-Equity Ratio	0.3	0.6	1.4	1.1	1.3
Current Ratio	1.3	1.3	1.9	2.1	2.1
Interest Cover Ratio	15.9	7.3	3.4	3.3	3.0
<b>Turnover Ratios</b>					
Fixed asset turnover	27.1	29.7	19.7	14.2	15.3
Total asset turnover	4.7	3.6	2.6	1.7	1.6
Debtors turnover	3.1	2.3	2.2	1.7	1.6
Inventory turnover	14.6	11.0	13.3	13.6	14.2
Creditors turnover	3.4	2.3	2.5	2.2	2.1

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