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IDBI capital

COMPANY REPORT

Tecpro Systems Ltd.

Diversified business mix enhances visibility

BUY

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Nifty: 4,850; Sensex: 16,151

CMP	**Rs220**
Target Price	**Rs269**
Potential Upside/Downside	**+22%**

Key Stock Data

Sector	Capital Goods
Bloomberg / Reuters	TPRO IN / TPSL.BO
Shares o/s (mn)	50.5
Market cap. (Rs mn)	11,104
Market cap. (US$ mn)	225
3-m daily average vol.	14,137

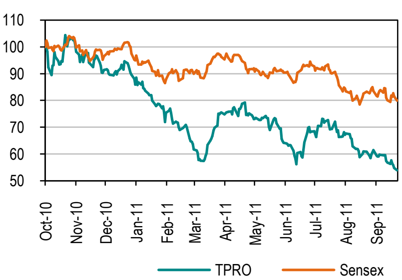
Price Performance

52-week high/low			Rs454/215
	-1m	-3m	-12m
Absolute (%)	(11)	(21)	(46)
Rel to Sensex (%)	(7)	(6)	(26)

Shareholding Pattern (%)

Promoters	52.6
FIIs/NRIs/OCBs/GDR	33.5
MFs/Banks/FIs	8.1
Non Promoter Corporate	2.1
Public & Others	3.7

Relative to Sensex



Source: Capitaline

Summary

Against a backdrop of sharp slowdown in the Power Equipment sector, we initiate BUY on Tecpro Systems Ltd. (TPRO) with DCF based target price of Rs269 based on 1) Robust O/B of Rs45 bn (1.8x FY12E revenue) assuring visibility over next 2 years 2) diversified orders inflows from Power, Material handling (Steel and Cement) sectors and 3) rising in-house manufacturing led by technological tie-ups enabling higher backward integration and increased order inflows (including WHR). We expect TPRO's OPM to contract to 13.0% led by shift in revenue-mix towards large BoP contracts by FY13E.

We estimate TPRO's revenue/earnings CAGR at 29/20% over FY11-13E. BoP projects such as Rayalaseema, CSPGCL Korba and Kakatiya cumulatively contribute 32/27% of FY12/13E revenue. At CMP of Rs220, the stock trades at 6.8/5.9x of our FY12/13E EPS of Rs32.5/37.5 respectively.

Investment Highlights

12th plan fuel linkage ~50GW; order inflow healthy despite coal shortage

We expect the 12th plan (FY13-17) thermal capacity addition to be lower i.e. ~62.5GW (CEA target of 76GW) on the back of 1) domestic coal shortage 2) SEB financial problems and 3) unavailability of import coal based projects. TPRO posted an impressive O/B/revenue CAGR of 74%/71% to Rs43.7/19.4 bn over FY07-11. Further, it gradually moved-up the value chain to become a full-fledged BoP player from small scale package manufacturer in 2007. The 12th plan thermal capacity addition translates to BoP opportunity worth Rs1,250 bn (CHP/AHP, BoP and MHP orders). For TPRO this translates to Rs24-69 bn p.a. opportunity over FY12-16E, respectively.

No overcapacity scenario in BoP

There is no overcapacity in the BoP segment vis-à-vis BTG implying comparatively lower pricing pressure. The large players like BHEL and L&T are focusing more on higher margin BTG portion in the BTG-BoP or EPC contracts. Secondly, utility owned players (Lanco, Tata Projects and Reliance Infra) are busy executing contracts for their flagship companies and are hardly bidding outside. Finally, smaller players are relegated to lower scale due to large number of packages involved in BoP. Thus, competitive environment is still benign for a dedicated BoP player like TPRO with only few meaningful competitors (McNally, TPRO, BGR, Indure and Elecon).Thus, going forward, TPRO is likely to restrict margin compression.

O/B - Rs45 bn translates to earnings CAGR of 20% over FY11/13E

TPRO's O/B grew 87% to Rs45 bn (1.8x FY12E revenue) post IPO (Sept. '10) with average execution of 25 months. The company bagged two BoP orders worth Rs19.8 bn from APGENCO recently. These two BoP projects, Rayalaseema and Kakatiya (1*600MW each), are worth Rs12.5 bn and Rs7.3 bn, respectively and have average execution period of 30 months. We estimate revenue/earnings CAGR at 29/20% over FY11/13E (v/s management revenue guidance of 35%).

Outlook and Valuation: Potential upside 22% – BUY

With three BoP projects under execution, TPRO is well positioned to capture the 12th plan BoP opportunity. However, we estimate margin contraction of 350bps to 13.0% by FY13E owing to revenue-mix shift towards BoP. Presently, its peer group companies (BGR, McNally, TRF and Elecon) are trading at an average of 6.1x P/E and 4.9x EV/EBITDA on FY13E. We believe TPRO can command a premium over peers owing to 1) Higher return ratios 2) Strong visibility led by sustained order inflows 3) Technological tie-ups to consistently improve scope of operations and 4) Increased backward integration with entry into civil works and water segment. **We have assigned a DCF-based TP of Rs269, translating to 7.2x FY13E EPS of Rs37.5. Initiate with BUY.**

Table: Financial snapshot **(Rs mn)**

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	8.9	5.6	42.8	39.8
FY11	19,673	3,243	16.5	1,325	26.2	8.4	5.4	31.7	30.3
FY12E	25,265	3,660	14.5	1,639	32.5	6.8	4.2	29.0	25.8
FY13E	32,671	4,243	13.0	1,893	37.5	5.9	4.7	25.5	24.2

Source: Company; IDBI Capital Research

Investment Positives

12th plan fuel linkage ~50GW; order inflow healthy despite coal shortage

TPRO's O/B/revenue grew impressively by 62%/85% CAGR to Rs20/14 bn over FY07-10. Further, its EBITDA/net margins grew 96%/117% CAGR respectively over the same period. Thus, it maintained operating margin at ~14-15% while growing at a fast pace over the last four years.

TPRO's revenue/earnings grew secularly over the last four years

Figure: O/B trend (Rs mn)

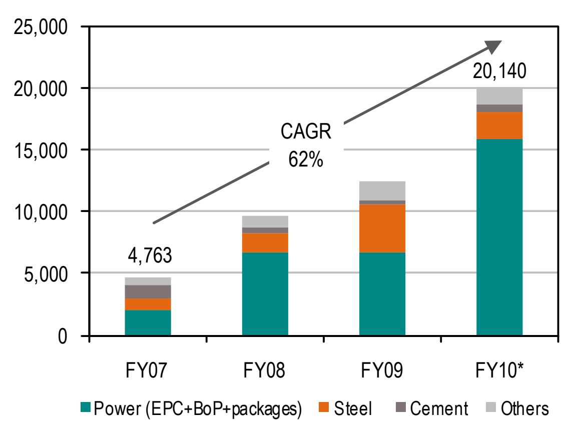
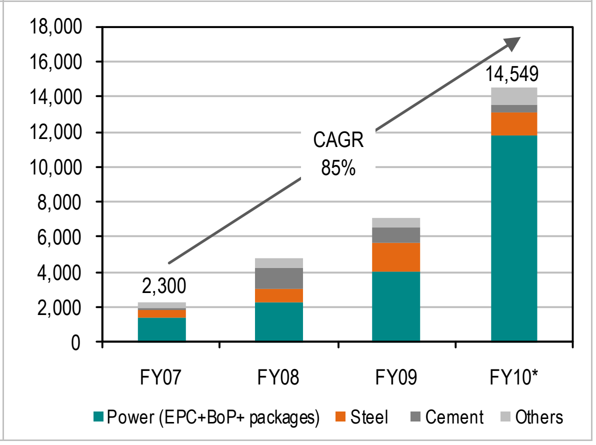


Figure: Revenue trend (Rs mn)



* Post merger TAL and TPSL with TSL

Source: Company; IDBI Capital Research

12th plan (FY13-17) entails BoP opportunity worth Rs1,250 bn, good news for TPRO

Our assumption of 12th plan capacity addition of 62.5GW is conservative

As per CEA, the 12th plan capacity addition is targeted to be 100GW, of which 76.5GW is thermal. Despite domestic coal shortage, land acquisition issues and environmental clearance delays, more than 50GW of capacity had already got coal linkages or captive coal block allocation. However, our top down analysis suggests that the realistic thermal (coal + lignite) capacity addition is likely to be ~80% of 76GW i.e. ~62.5GW. We have assumed higher 12th plan capacity addition (v/s 63.5% in the 11th plan) primarily on back of 1) 12th plan BTG tendering of ~115-118GW (including UMPPs) till date 2) delivery compression of 5-6 months for supercritical packages by entry of private BTG suppliers such as L&T, BGR etc. and 3) increased BTG supply due to domestic capacity addition from private players.

Table: Expected capacity addition

Plan period	Target	Actual	Achievement (%)
8th (92-97)	30,538	16,423	53.8
9th (97-02)	40,225	19,015	47.3
10th (02-07)	41,110	21,190	51.5
11th (07-12)*	78,700	50,000	63.5
12th (13-17)*	100,000	70,000	70.0

* Estimated capacity addition

Source: Company; IDBI Capital Research

It is pertinent to note that while BTG ordering process for the 12th plan is already over. The BoP ordering will commence only now, with NTPC bulk tender related package tenders being first off the block. In our view, the ordering will get a leg up in H2FY12, which is a near term positive for TPRO.

AHP/CHP package orders and BoP to remain key focus areas for TPRO

Table: Plan-wise BoP opportunity

	10th Plan-A	11th Plan-UA	12th Plan-E
Thermal capacity addition	**21,180**	**50,570**	**62,500**
Coal Handling Plant (CHP)	23	68	70
Ash Handling Plant (AHP)	23	69	70
De-mineralized Water Plant (DM)	32	69	70
Cooling Tower	41	79	70
Chimney/ Stack	36	79	77
Fuel Oil System (FO)	22	71	70
PT Plant	36	76	70
Sub-total	**213**	**511**	**497**
BoP opportunity (Rs bn)	**424**	**1,012**	**1,250**

Source: Company; IDBI Capital Research

The BoP and CHP/AHP packages opportunity grew at 13% CAGR over the last decade and is estimated to be worth Rs1,250 bn in the 12th plan. TPRO moved up the value chain successfully to BoP from single package orders and bagged its first BoP project in 2007 from Chhattisgarh Electricity Board.

As per Aug-09 CEA report, TPRO commanded a market share of ***19%*** in coal handling and ***15%*** in Ash handling business in the 11th plan. Overall, the company's share for full-fledged BoP contracts has average ~7%in the 11th plan. We have assumed TPRO's market share for full-fledged BoP contracts as 8% for FY12 and 10% thereafter owing to big size order wins like Rayalaseema and Kakatiya. This translates into order intake of Rs17-60 bn p.a. over FY12-16E. Further, our assumptions of Rs2 bn for small EPC orders are based on the management guidance.

While assumptions on opportunity are conservative our market share assumption for TPRO are in line with 11th plan trend

Table: Major order inflow assumptions from various segments **(Rs mn)**

	FY12E	FY13E	FY14E	FY15E	FY16E
BoP expected ordering (MW)	6,250	9,375	12,500	15,625	18,750
Opportunity @ Rs20 mn/MW	125,000	187,500	250,000	312,500	375,000
CHP scope (%)	*20*	*20*	*20*	*20*	*20*
CHP opportunity	25,000	37,500	50,000	62,500	75,000
TPRO's share (%)	***19***	***19***	***19***	***19***	***19***
CHP order inflows	4,750	7,125	9,500	11,875	14,250
AHP scope (%)	*15*	*15*	*15*	*15*	*15*
AHP opportunity	18,750	28,125	37,500	46,875	56,250
TPRO's share (%)	***15***	***15***	***15***	***15***	***15***
CHP order inflows	2,813	4,219	5,625	7,031	8,438
CHP + AHP order inflows	**7,563**	**11,344**	**15,125**	**18,906**	**22,688**
BoP market share (%)	*8*	*10*	*10*	*10*	*10*
BoP order inflows	**10,000**	**18,750**	**25,000**	**31,250**	**37,500**
Total BoP orders	**17,563**	**30,094**	**40,125**	**50,156**	**60,188**
Small EPC orders	2,000	2,120	2,247	2,382	2,573
MHP orders (including WHR)	5,000	5,000	5,500	5,940	6,415
Sub-total order inflows	***24,563***	***37,214***	***47,872***	***58,478***	***69,175***

Source: Company; IDBI Capital Research

TPRO has also regularly won orders from material handling industry especially from Steel and Cement industry. The company is also eyeing waste heat recovery (WHR) orders primarily from Cement and Steel industry driven by system based power consumption.

Table: Steel demand outlook

Company	Capacity addition (mn tonnes)	Total 12th plan outlay (Rs bn)	Expected commissioning
SAIL	10.8	619	2015
TATA Steel	9.2	400	2016
JSW Steel	14.2	350	2015
JSPL	12.0	500	2015
Total Capex	**46.2**	**1,869**	

Source: Company; IDBI Capital Research

Material handling solutions offer significant growth opportunities for TPRO

The aforesaid green field capacity addition entails a capex of **Rs1.9 trn** over next 5-6 years. Thus, the coal handling portion has scope of **8-9%** in the total capex translating to **~Rs30 bn** order inflow opportunity p.a. from Steel sector alone.

Further, Cement and Port sector capex is also expected to provide material handling opportunities for TPRO going forward. However, the management expects steel orders to recover first followed by cement in 1-2 years. **We have assumed order inflows of Rs5 bn in MHP orders (including WHR orders). Thus, we modeled total order inflow assumption of Rs24-69 bn p.a. over FY12-16E.**

BoP to contribute 32% of revenue by FY12E

Figure: Revenue break-up (FY11)

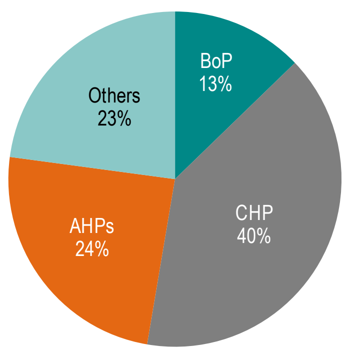
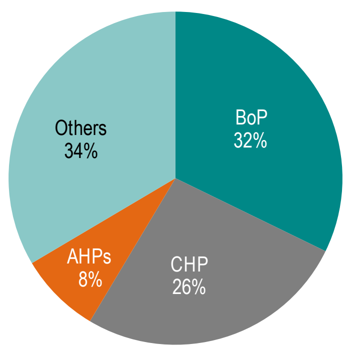


Figure: Revenue break-up (FY12E)



Source: Company; IDBI Capital Research

Moving up the value chain - Packages to BoP

TPRO had slowly graduated from smaller scale Coal Handling (CHP) and Ash Handling Plants (AHP) orders, to large sized BoP contracts. Further, the company developed in-house expertise to manufacture 35-40% of these plants. This helps TPRO sustain operating margins ~15-16% for CHP/AHP and ~13-14% for BoP orders as shown in the following table:

TPRO specializes in AHP/CHP manufacturing contributing 35% of BoP

Table: TPRO's indicative margin composition **(%)**

BoP packages	% portion	In-house	TPRO OPM	Outsourced
Ash handling plant	15	15	15	10
Coal handling plant	20	15	15	10
Chimney	10	15	10	10
Cooling tower	5	15	10	10
Civil works (incl. water)	30	13	10	10
E-BoP	10	13	10	10
Cables and pipes	5	10	5	5
C&I, Fire protection Systems	5	10	5	5
Overall Margin profile (%)	**100**	**14**	**11**	**10**

Source: Company; IDBI Capital Research

Thus, increased in-house manufacturing would help TPRO maintain double digit margins.

Technological tie-ups help TPRO improve its scope of operations sustaining growth

TPRO has four manufacturing facilities of which three are located at Bhiwadi, Rajasthan and one at Bawal, Haryana. The Bawal plant manufactures stackers, reclaimers, crushers, screens, feeders and fabricated structures. The plants at Bhiwadi, Rajasthan have facilities manufacturing pulleys, idler, rollers, structures, feeders, screens, conveyor systems, conveyor components, crushers and screen parts. The casting unit at Bhiwadi, Rajasthan services both the material and ash handling equipment. Further, management is confident of sustaining double digit margins in BoP contracts (refer to the above mentioned table). Going forward, the company is aiming to increase its scope of in-house activities in a BoP contract by undertaking civil works and cooling tower manufacturing.

TPRO has also entered into various important collaborations to manufacture and sell in a bid to improve its backward integration. This is expected to enhance inventory control as the company scales up. Recently, the company has entered into collaboration with Nanjing Triumph Kaineng (NTK) environment to cater to waste heat recovery boiler tie-up to capture increasing demand for these boilers from Cement/Steel players. The various collaborations by the company are highlighted below:

Table: Collaborations leading to increased scope, higher integration

Name of collaborator	Collaboration details
Coal and material handling solutions	
FAM Magdeburger Forderanlagenund Baumaschien GmbH	License to sell, design, engineer, manufacture, transport, erect, commission & service certain crushers, roller screens and grinding
Krusnohorske Strojirny Kormorany AS	License agreement for sale & manufacturing of various types of stakers, reclaimers, paddle feeders and twin rotors
Won Duck Industrial M/c Co. Ltd.	License for sale of Cone crushers & manufacture of single toggle jaw crushers
Ash handling solutions	
GEA EGI Contracting/Engg Co.	Promotion of the high concentration slurry disposal system where bottom ash and fly ash are disposed together
Xiamen Longking Bulk materials Science and Engg Co. Ltd.	Collaboration for dry bottom Ash handling system, pneumatic conveying fly ash handling system and coal mill rejects system
Greenbank Terotech Ltd.	Collaboration of supply of cast basalt pipe fittings to be used in the conveying of abrasive materials such as ash and slurry for core sector industries
Nanjing Triumph Kaineng Environment and Energy Company	Sale and manufacture Water heat recovery boilers, blast furnaces
Pneuplan OY, Finland	Design, supply, erection and commissioning of Pneumatic extraction & Conveying Systems

Source: Company; IDBI Capital Research

Acquisition of Ambika projects – Enhancing backward integration

TPRO has recently acquired Ambika Projects (India) Pvt. Ltd, a Chennai based water Treatment Company for Rs103 mn. Ambika Projects is an EPC firm catering to water and waste water treatment with a presence in Chennai, Mumbai and Sultanate of Oman. Its client list includes companies VSNL, SAIL, JSW, BGR Energy, Essar, Vedanta, Shriram EPC, among others.

In the initial stages, TPRO would be still outsourcing water treatment portion (to the likes of VAtech) in bidding larger BoP projects. However, the company is banking Ambika to develop its pre-qualifications for 500MW+ BoP projects over the next 12-18 months in the water treatment (which forms 10-12% of BoP) so that TPRO can increase its in-house manufacturing scope in BoP projects.

Further, the company is also entering into BoP related civil works to improve backward integration level thereby improving the scope of its in-house activities.

No overcapacity scenario in BoP

BoP competitive intensity is expected to remain lower vis-a-vis to BTG on back of 1) lack of Chinese presence 2) High entry barriers with very few dedicated BoP players as competitors and 3) Lower profitability (12-13%) vis-à-vis BTG (15-16%). The competitive scenario for TPRO still remains comparatively benign in the foreseeable future on back of large BoP/package opportunity available in the 12th plan. There are four types of players present as follows:

Very few mid-sized BoP players are real competitors for TPRO implying lower pricing pressure

- **Large EPC/BTG players**: Also engage in BoP – BHEL, L&T and Punj Lloyd
- **Mid-sized players**: BGR, Tecpro, Thermax, Indure, TRF, ThyssenKrupp, McNally and Elecon who are backward integrated and have ability to execute BoP and smaller EPC/CPP projects
- **Power utility owned EPC players**: Reliance EPC, Tata Projects, Lanco Infrastructure etc. – who are focused on only in-house EPC/BoP projects
- **Small/midsized package manufacturers**: Paharpur Cooling Towers, Simplex, VA Tech Wabag, Gammon etc

Table: Package-wise key manufacturers

Name of BoP package	Key players
Coal handling plant (CHP)	Tecpro, L&T, Elecon, TRF, ThyssenKrupp, McNally
Ash handling plant (AHP)	Indure, Mecawber, Tecpro, McNally , DC Industrial
De-mineralized water plant	Driplex Water, Doshi Ion Exchange, Thermax, Triveni
Fuel oil system	BHEL, Techno Electric, Unitech M/C
Cooling tower	Paharpur, Gammon, BGR, NBCC
Chimney	Gammon, NBCC, Simplex
Control & instrumentations	BHEL, Yokogawa, ABB, Honeywell
Switchyard/Switchgear (HT/LT)	BHEL, Areva, ABB, L&T
Fire protection system	Minimax, Lloyds, Tyco, Unitech M/C

Source: Company; IDBI Capital Research

Large EPC/BTG players such as L&T and BHEL mostly outsource BoP components to above mentioned players. Further, few players such as Tata Projects, Reliance and Lanco Infrastructure generally execute EPC for their own flagship utility companies and don't bid for third party BoP/ EPC projects. ThyssenKrupp also scarcely bids for BoP projects in India. Thus, it reduces competitive intensity for mid-sized players such as TPRO and BGR. Additionally, Lanco and Tata Projects have awarded CHP/AHP packages to TPRO in the past.

Further, **NBPPL (NTPC-BHEL BoP JV)** is unlikely to create significant competition for TPRO as it would take another 2-3 years to compete meaningfully. NBPPL is seeking technology partners for coal and Ash handling plants. The company is setting up its manufacturing plant in Chittoor district, near Tirupati. The company has been seen some delay in land acquisition of 720 acres. Its BoP manufacturing plant is expected to come-up by 2013-14. Thus, the company's expansion plans are moving at a slow pace and there is no immediate competition to TPRO.

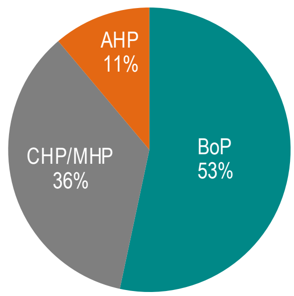
There are very few BoP/material handling players like **McNally, BGR, TRF** and **Elecon**, which are real competitors for TPRO. Thus, the company's competitive advantage lies in its in-house manufacturing of critical components of AHP/CHPs, which contribute **35-40% of the total BoP contract. Thus, backward integration would help TPRO maintain double digit margins in BoP/small EPC contracts.**

Going forward, TPRO aims to maintain its market share of **19%/15%** in both CHP/AHPs respectively and subsequently aims to improve its market share in the BoP segment. Further, it has already pre-qualified for 500/600MW BoP projects. However, as TPRO gains scale, we expect the company's margins to moderate to 13.0% by FY13E driven by revenue-mix shift towards large BoP projects.

O/B- Rs45 bn translates to earning CAGR of 20% over FY11/13E

TPRO's O/B increased 87% to Rs45 bn (1.8x FY12E revenue) post IPO (Sep-10). The company bagged two BoP orders worth Rs19.8 bn from APGENCO recently. These two BoP projects are Rayalaseema and Kakatiya (1*600MW each) are worth Rs12.5 bn and Rs7.3 bn, respectively and have average execution period of 30 months. We estimate revenue/earnings to grow 29/20% CAGR over FY11-13E (v/s management revenue guidance of 35%).

Figure: O/B of Rs45 bn



Source: Company; IDBI Capital Research

The company has also recently won the largest material handling order from BHEL worth Rs5.2 bn for EPC of CHP and AHP systems with an execution period of 24 months.

NTPC CHP and CHP package opportunity worth Rs92 bn

Unlike, NTPC two bulk BTG tenders (9*660MW and 9*800MW), its package tenders are not much delayed. TPRO is already pre-qualified bidder and has good execution track record with NTPC. The company has already bid for CHP/AHP orders related Sholapur and Muzaffarpur plants. Thus, in our view, opportunity size for CHP and AHP stands at Rs92 bn over FY12/13E. We expect ~Rs14 bn order inflows (assuming TPRO's market share ~15%) in CHP/AHP from NTPC in FY12/13E.

NTPC's bulk tender related AHP/CHP orders to remain key trigger for TPRO

Table: NTPC 9*660MW bulk tender

Plant name	Capacity (MW)	Value (Rs mn)	CHP (Rs mn)	AHP (Rs mn)
Tanda	1320	59,400	6,600	2,640
Sholapur	1320	59,400	6,600	2,640
Nabinagar- JV with Railways	1980	89,100	9,900	3,960
Meja	1320	59,400	6,600	2,640
Total	**5,940**	**267,300**	**29,700**	**11,880**

Source: Company; IDBI Capital Research

Table: NTPC 9*800 MW bulk tender

Plant name	Capacity (MW)	Value (Rs mn)	CHP (Rs mn)	AHP (Rs mn)
Lara- Chhattisgarh	1600	72,000	8,000	3,200
Darapalli	1600	72,000	8,000	3,200
Gajmara	1600	72,000	8,000	3,200
Kudgi	2400	108,000	12,000	4,800
Total	**7200**	**324,000**	**36,000**	**14,400**

Source: Company; IDBI Capital Research

Outlook and Valuation

With three BoP projects under execution, TPRO is well positioned to capture the 12th plan BoP opportunity. We estimate TPRO's revenue/earnings CAGR of 29/20% over FY11-13E (v/s management guidance of 35% revenue CAGR) on account of strong O/B of Rs45 bn till date (1.8x FY12E revenue). We believe that order inflow scenario could improve in H2FY12 on back of 1) finalization of NTPC CHP/AHP orders related to bulk tenders and 2) pick-up in private/SEB BoP orders. We believe that TPRO is likely to benefit from State/Central PSU orders in FY12E.

Presently, its peer group companies (BGR, McNally, TRF and Elecon) are trading at an average of 6.1x P/E and 4.9x EV/EBITDA on FY13E. We believe TPRO can command a premium over peers owing to 1) Higher return ratios 2) Strong visibility led by sustained order inflows 3) Technological tie-ups to consistently improve scope of operations and 4) Increased backward integration with entry into civil works and water segment. We have assigned a DCF-based TP of Rs269, translating to 7.2x FY13E EPS of Rs37.5. Initiate with BUY.

DCF value at Rs269

We have assigned the risk free rate of 8.3% (10-yr G-sec yield rate), market risk premium is taken at 6% (to factor risk for w/c and higher growth) and beta at 1.13x (13% premium to broader market), which gives a WACC of 12.6%. We have assumed terminal value as 5.0x FY16E EBITDA multiple, which we believe is conservative. This translates to DCF value of Rs269/share, at 7.2x FY13E EPS of Rs37.5.

DCF value at Rs269/share implies target multiple of 7.2x FY13E EPS of Rs37.5

Table: DCF valuation

(Rs mn)	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E
Explicit FCFF	2,174	(3,633)	(989)	(213)	698	3,062	2,589	3,134	3,695	4,336
Terminal Value										60,173
FCFF	**2,174**	**(3,633)**	**(989)**	**(213)**	**698**	**3,062**	**2,589**	**3,134**	**3,695**	**64,508**
Discounting year	0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5
PV	2,051	(3,052)	(740)	(141)	414	1,630	1,228	1,326	1,394	1,458
NPV	13,602									
No. of shares (mn)	50									
NPV/Share (Rs)	**269**									

Source: Company; IDBI Capital Research

Table: WACC Calculation

Risk-free rate	*8.3%*
Risk premium	*6.0%*
Beta (x)	1.13
Cost of Equity	*15.1%*
Weight of equity	0.6
Cost of Debt	*12.2%*
Tax Rate	*34.5%*
Post-tax cost of debt	*8.0%*
Weight of debt	0.6
WACC	*12.6%*

Source: Company; IDBI Capital Research

Table: DCF-target sensitivity

WACC		Sensitivity analysis & terminal growth rate (%)				
		10	11	12	13	14
TG multiple (EBITDA)	4.0	266	225	188	155	124
	4.5	313	**269**	**228**	**191**	158
	5.0	361	**313**	**269**	**228**	192
	5.5	408	**356**	**309**	**265**	226
	6.0	456	400	349	302	259

Source: IDBI Capital Research

TPRO can command a premium on relative basis

We have also valued TPRO on the average valuation with companies listed in the same business and also comparable size. We believe the company should command premium to its peers on account of 1) Higher return ratios vis-à-vis peers 2) diversified and sustained order inflows 3) successful collaborations for critical components and new technologies and 4) increased backward integration to sustain double digit margins. However, lower advances due to higher proportion of subcontracting orders may stretch working capital cycle and increase its dependence on debt, pressurizing margins, which is also factored in our assumptions.

Table: Peer valuation

		P/E (x)		EV/EBITDA (x)		OPM (%)	RoE (%)	
	BL. Code	FY12E	FY13E	FY12E	FY13E	FY12E	FY12E	FY13E
BGR Energy Systems	BGR IN	6.7	6.5	4.3	4.0	12.5	30.4	25.7
McNally Bharat	MCN IN	4.9	3.8	4.2	3.5	7.8	19.0	21.0
TRF	TRF IN	9.1	7.5	8.2	6.9	6.6	18.0	17.2
Elecon Engineering	ELCN IN	8.0	6.4	5.2	4.8	14.9	19.7	19.4
Average		**7.2**	**6.1**	**5.4**	**4.8**	**10.4**	**21.8**	**20.5**
Tecpro Systems	TPRO IN	6.9	6.0	4.3	4.7	13.0	27.8	25.6
Target multiple (@ 20% premium)		8.8	7.6					
FY13E EPS (Rs)			**37.5**					
Target price (Rs)			**272**					

Source: IDBI Capital Research, Bloomberg consensus

Risks and Concerns

Fuel, order delay and lower advances are key risks for TPRO

Fuel linkage – A big worry

Power sector outlook is marred due to coal linkage problems faced by many greenfield and brownfield power projects. Coal India Ltd. (CIL) is incrementally committing only 50-60% long term coal linkages for new power projects (under FSA agreements). Further, CIL production growth is slated to be 5-6% CAGR v/s 9-10% CAGR for thermal capacity addition. Additionally, importing coal is expensive for Power plants. Thus, if CIL is not able improve coal production, it could result into lower capacity addition for the 12th plan implying reduced BoP ordering. Keeping this in mind, our assumption on capacity addition at 62.5GW is conservative.

Delays in ordering process

The key risk that most of the power equipment/EPC players facing are tender delays in Central/State utilities, resulting into lower revenue visibility. Though, TPRO's O/B grew 105% YoY to Rs45 bn (1.8x FY12E revenue). Going forward, the company may face delay in winning orders especially, large BoP orders. Further, TPRO risks lower orders from private IPPs who's funding cost have increased by 200-250bps in the last one year.

Compromising on advances for order inflows can pressurize margins

The company has compromised on advances (v/s Industry standard of ~10%) to gain maximum orders especially subcontracting orders and MHP orders, where the advances are minimal or low. Thus, advances are expected to remain in 3-4%, which is lower compared to ~10% advance for BoP segment. Thus, TPRO's working capital cycle may get stretched and increase its dependence on borrowings pressurizing margins.

FY11 advances figure appears low as company received advance to the tune of Rs2 bn in FY12 (May-11)

Table: Advances as a proportion of O/B

O/B break-up (Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Advances	206	656	661	2,769	1,790
% of O/B	*1.6*	*3.3*	***1.5***	*5.7*	*2.9*
Order book	**12,529**	**20,140**	**43,710**	**48,817**	**60,765**

Source: Company; IDBI Capital Research

Korba contract litigation unlikely to have much impact

CSPGCL's* award of Rs9.9 bn Korba project to the company has been contested by Indure, one of the other bidders to the tender, alleging that its bid was arbitrarily and discriminatorily rejected by CSPGCL. Its writ petition was dismissed by the High Court of Chhattisgarh in December 10, 2009, but Indure has filed a special leave petition in the Supreme Court. The CSPGCL' Korba order accounts for 10% of the O/B as on 31st March, 2011. However, TPRO is already in advanced execution stage and has already recognized 50% of revenue in this project. This puts it legally in a strong position.

* Chhattisgarh State Power Generation Company Ltd.

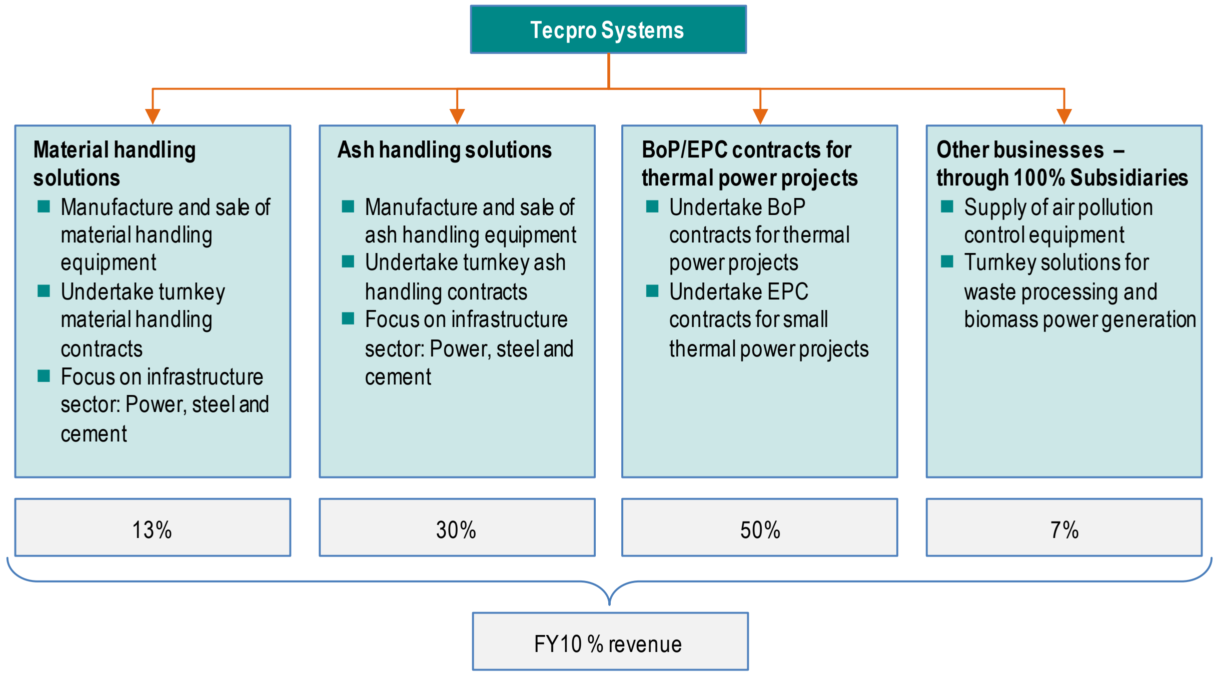
Dependence on technical collaborations

TPRO relies on technical collaborations with leading international companies to facilitate its business operations. The company currently has technical collaborations with companies such as FAM Magdeburger, Forderanlagen und Baumaschinen GmbH, PEYTEC Material Handling GmbH, Maschinenfabrik Liezen und Giesserei GmbH and Won Duck Industrial Machinery Company Limited. This dependence on collaborations is a long term risk.

Company Profile

Tecpro Systems Ltd. (TPRO) is an established material handling company in India, engaged in providing turnkey solutions in material handling, ash handling, Balance of Plant (**BoP**) and Engineering, Procurement and Construction (**EPC**) contracts. The company designs, engineers, manufactures, sells, commissions and services a range of systems and equipment for the core infrastructure related sectors like power, steel, cement and other industries. Over the years it has developed in-house capabilities for providing comprehensive solutions in material handling and ash handling systems. With a vision to build an integrated business serving the power sector, the company has expanded into various complimentary businesses across different segments of the power sector.

Figure: Business model



Source: Company; IDBI Capital Research

TPRO was incorporated in 1990 and is promoted by Mr. Ajay Kumar Bishnoi and Mr. Amul Gabrani who are first generation entrepreneurs with more than 25 years of experience in the material handling industry. The company started operations in the material handling business in 2001 and up to March 31, 2010 it has executed 1,042 material handling orders and currently has 269 material handling orders under execution. In order to expand its scope of services, it has integrated the ash handling business of Tecpro Ashtech Limited (**TAL**, previously known as Mahindra Ashtech Limited) with its existing material handling operations pursuant to the merger of TAL with TPRO. TAL was engaged in the business of ash handling systems for over 40 years.

Leveraging its capabilities in coal handling and ash handling, TPRO established project management track record and had begun to focus on turnkey BoP contracts in the thermal power generation sector. The scope of services for BoP contracts includes design and engineering, manufacturing and sourcing of equipment and packages, project management and commissioning. TPRO was awarded the first BoP contract worth Rs9.9 bn by the CSGPCL for a 1x500 MW thermal power plant at Korba West in August 2009 through a consortium.

TPRO had also entered the EPC segment for thermal power projects in 2007. The company manages erection and commissioning of the Boiler, Turbine and Generator (**BTG**) packages along with undertaking the engineering, design, supply and commissioning of other equipment and services in an EPC contract. The company either collaborates or outsources to a third party supplier for providing BTG packages in EPC contracts. Currently, TPRO undertakes EPC contracts for small thermal power plants. It has entered into technical collaborations and license agreements with several international companies to strengthen its technical credentials and provide access to advanced technologies. TPRO has eight collaborations for various material handling solutions and technologies and three collaborations in relation to ash handling operations.

Financial Summary (Consolidated)

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)	(1,131)	(1,292)
Other income	209	155	155	155
Pre-tax profit	**1,684**	**2,064**	**2,554**	**2,949**
Tax	(587)	(739)	(915)	(1,056)
Effective tax rate (%)	*34.9*	*35.8*	*35.8*	*35.8*
Net profit	**1,097**	**1,325**	**1,639**	**1,893**
Adjusted net profit	**1,097**	**1,325**	**1,639**	**1,893**
Growth (%)	*116.3*	*20.8*	*23.7*	*15.5*
Shares o/s (mn nos)	*44*	*50*	*50*	*50*

Cash Flow Statement (Rs mn)

Year-end: March	FY10	FY11	FY12E	FY13E
Profit Before Tax	**1,684**	**2,064**	**2,554**	**2,949**
Depreciation	73	104	131	158
Cash Used in Operations	**2,398**	**3,403**	**2,685**	**3,107**
Taxes (Paid)	(410)	(703)	(915)	(1,056)
Cash flow from WC changes	**(4,536)**	**(3,903)**	**151**	**(5,901)**
Cash flow from Operating activities (a)	**(2,137)**	**(1,202)**	**1,921**	**(3,850)**
(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	1,050	1,900
Unsecured loan	(82)	(10.0)	-	-
Equity share capital	165	62.7	-	-
Cash flow from financing activities (c)	**2,990**	**1,198**	**1,050**	**1,900**
Change in Cash & Cash Equivalents	**515**	**(671)**	**3,011**	**(2,406)**
Opening Cash & Cash Equivalents	1,304	1,819	1,148	4,159
Net chg in cash (a+b+c)	**1,819**	**1,148**	**4,159**	**1,753**

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**	**29,159**	**35,003**
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	4,159	1,753
Loans and advances	741	1,197	1,730	2,238
Total assets	**16,207**	**23,486**	**31,102**	**37,244**
Shareholders' funds	**3,521**	**4,841**	**6,480**	**8,372**
Share capital	442	505	505	505
Reserves & surplus	3,079	4,336	5,975	7,868
Total Debt	**4,868**	**7,469**	**8,519**	**10,419**
Secured loans	4,858	7,469	8,519	10,419
Unsecured loans	10	-	-	-
Other liabilities	4,868	7,469	8,519	10,419
Curr Liab & prov	**8,263**	**11,706**	**16,768**	**19,221**
Current liabilities	7,819	11,177	16,103	18,453
Provisions	444	530	665	768
Total liabilities	**12,687**	**18,645**	**24,622**	**28,872**
Total equity & liabilities	**16,208**	**23,486**	**31,101**	**37,244**
Book Value (Rs)	**80**	**96**	**128**	**166**

Financial Ratios

Year-end: March	FY10	FY11	FY12E	FY13E
Adj EPS (Rs)	24.8	26.2	32.5	37.5
Adj EPS growth (%)	35.6	5.8	23.7	15.5
EBITDA margin (%)	15.5	16.5	14.5	13.0
Pre-tax margin (%)	11.6	10.5	10.1	9.0
ROE (%)	42.8	31.7	29.0	25.5
ROCE (%)	39.8	30.3	25.8	24.2
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.2	1.0	0.9	1.0
Leverage factor (x)	4.6	4.7	4.8	4.6
Net margin (%)	7.5	6.7	6.5	5.8
Net Debt/Equity (x)	0.9	1.3	0.7	1.0
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)	8.9	8.4	6.8	5.9
Price / Book value (x)	2.8	2.3	1.7	1.3
PCE (x)	8.3	7.8	6.3	5.4
EV / Net sales (x)	0.9	0.9	0.6	0.6
EV / EBITDA (x)	5.6	5.4	4.2	4.7
Dividend Yield (%)	1.4	1.4	1.8	2.1

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Key to Ratings

Stocks:

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

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