

Tecpro Systems Ltd**Rs 161****KRChoksey**
INTEGRATED FINANCIAL SOLUTIONS**Robust execution and healthy order inflows...****BUY**

Tecpro systems registered strong net sales growth of 30.4% as net sales increased to Rs 591.1 cr. Operating margins improved by 198 bps to 15.1% on account of favorable sales mix. Consequently EBIDTA grew by 50.1% YoY to Rs 89.3 cr. Interest cost increased sharply by 54.8% to Rs 73.4 cr, which remains a concern. Other income increased to Rs 7.1 cr vs Rs 3.6 cr in Q2FY12. Other income is higher by Rs 3.44 cr due to change in accounting policy wrt exchange differences arising from foreign currency borrowing. Consequently adjusted PAT increased by 14% to Rs 9.8 cr. Order backlog stands at Rs. 4,430 cr. The company registered order inflows worth Rs 1,409 cr in H1FY13 vs Rs 837 cr in H1FY12.

Strong operational performance

Tecpro registered strong execution as sales increased by 30.4% YOY, in line with expectation. Material handling contributed 63% of the revenues followed by BOP constituting 29% and ash handling 8% of the total revenues. The company also registered healthy OPM%, above our expectation, on account of favorable sales mix. For full year management has guided a sales growth of 25% to 30% and maintained operating margins guidance at similar levels of FY12.

Focus on working capital management, higher debtors days remains a concern

Current debt stands at Rs 1800 cr (WC borrowing at Rs. 1,677 cr) vs Rs 1,021 cr in Q2FY12. Debtors outstanding are Rs 2,387 cr (above 300 days) of which retention money constitute Rs 815 cr. Debtors have stretched working capital and thereby increased short term borrowing in excess of 50% of annual sales. The company is focused on improving working capital management. It has Letter of credit for projects from clients like Lanco, Punj Lloyd, NTPC and on international projects. For current fiscal the company targets to maintain its debt at current levels of Rs 1,800 cr.

Healthy order inflows worth Rs 1,620 cr in current fiscal

For H1FY13, Tecpro registered strong order inflows worth Rs 1,409 cr vs Rs 837 cr in H1FY12. Consequently order backlog increased to Rs 4,430 cr as of Q2FY13. Post H1 FY13, Tecpro registered order inflows worth Rs 210 cr taking total order inflow to Rs. 1,620 cr for the current fiscal. Power sector orders - AHP and CHP projects primarily contributed to growth in order inflows followed by international orders from Indonesia. The management has guided for order inflows in range of Rs 3,500 to Rs 4,000 cr for FY13 on back of bids made for BOP projects, CHP/AHP projects, NMDC steel plant MHE project and focus on international projects. A major BOP project is expected to be finalized by Dec 12.

Our View & Valuation

At CMP of Rs. 161 Tecpro is trading at a P/E of 6.7x FY13E earning and 5.7x FY14E. Considering attractive valuations, healthy order inflow in recent month we assign a P/E of 7x to its FY14E EPS of 28.3 and recommend a BUY on the stock with price target of Rs 198.

Key Financials: (Rs crore)

Particulars	FY11	FY12	FY13E	FY14E
Sales	1,967.3	2,536.8	3,087.0	3,470.5
EBITDA	324.3	393.1	463.1	503.2
PAT	132.5	123.1	120.8	143.1
OPM (%)	16.5	15.5	15.0	14.5
NPM (%)	6.7	4.9	3.9	4.1
EPS	26.2	24.4	23.9	28.3
ROCE (%)	23.3	18.3	16.1	19.9
RONW (%)	19.8	15.9	14.0	14.6
P/E	6.1	6.6	6.7	5.7
P/Bv	1.1	0.9	0.8	0.7
EV/EBIDTA	4.3	5.2	5.7	4.4

Source: Company, KRChoksey Research

Price Outlook: Rs 198

Potential upside: 22%

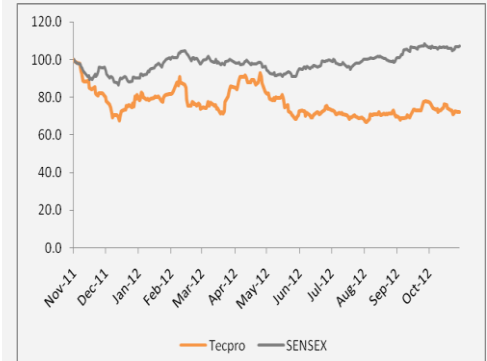
Previous TP(Rs): 204

Market Data

Shares outs (Cr)	5.04
Equity Cap (Rs Cr)	50.4
Mkt Cap (Rs Cr)	814
52 Wk H/L (Rs)	210/123
Avg Vol (1yr avg)	22,280
Face Value (Rs)	10
Bloomberg Code	TPRO IN

Market Info:

SENSEX	18,309
NIFTY	5,574

Price Performance**Share Holding pattern (%)**

Particulars	Sep-12	Jun-12	Chg
Promoters	52.63	52.63	0.00
FIIs	4.25	4.01	0.24
DIIs	18.68	18.67	0.01
Others	24.44	24.69	-0.25
Total	100.00	100.00	

Source: BSE

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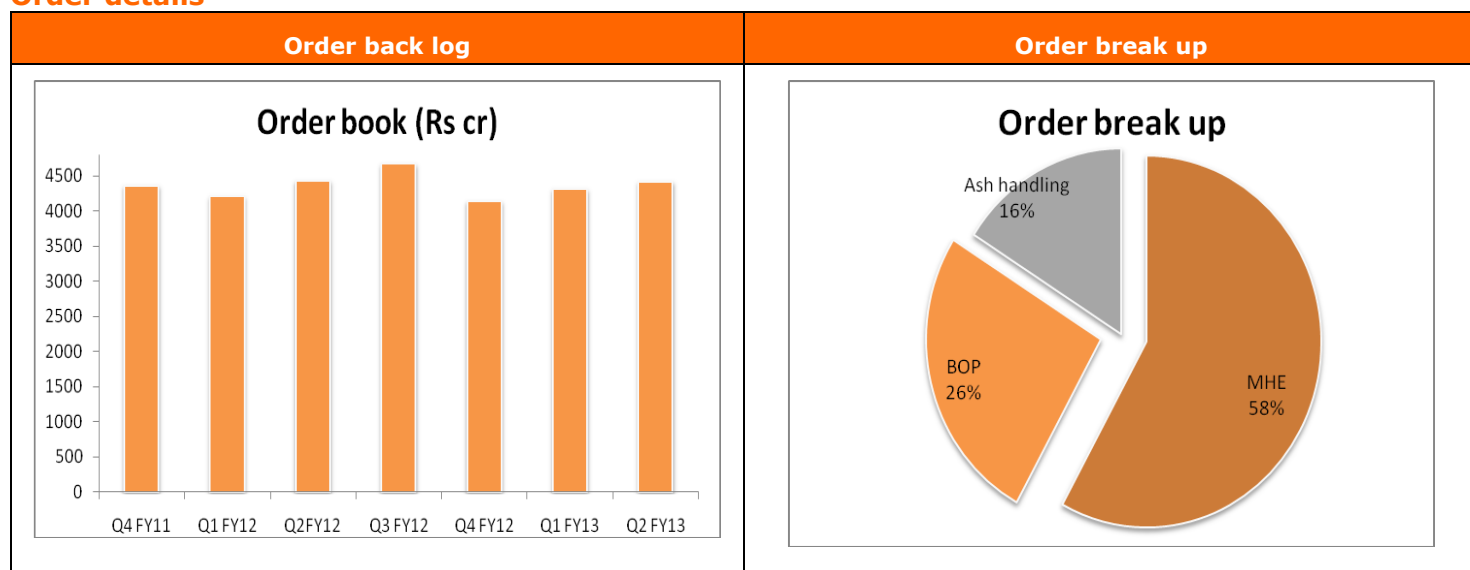
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Q2 FY13 Result
(Rs Crore)

Particulars	Q2FY13	Q1FY13	Q2FY12	Q-o-Q	Y-o-Y
Net Sales	591.1	558.2	453.3	5.9%	30.4%
Total Expenditure	-501.8	-480.0	-393.8	4.5%	27.4%
EBITDA	89.3	78.1	59.5	14.3%	50.1%
EBITDA Margin (%)	15.1%	14.0%	13.1%	111 bps	198 bps
Depreciation	-4.6	-4.4	-3.0	4.6%	54.1%
EBIT	84.7	73.7	56.5	14.9%	49.9%
Interest	-73.4	-65.0	-47.4	12.9%	54.8%
Other income	7.1	1.7	3.6	320.6%	99.3%
Profit before tax	18.4	10.4	12.7	77.0%	45.4%
Tax	-6.0	-3.4	-4.1	77.2%	46.0%
Net Profit	12.5	7.0	8.6	77.0%	45.1%
Adj PAT	9.8	7.0	8.6	38.6%	13.6%
Net Profit Margin (%)	1.6%	1.3%	1.9%	39 bps	-24 bps

Source: Company data, KRChoksey Research.

Order details


Source: Company data, KRChoksey Research.

Tecpro Systems Ltd

Financials:
Profit & Loss A/c

(Rs. Crore)

Particulars	FY11	FY12	FY13E	FY14E
Net Sales	1,967.3	2,536.8	3,087.0	3,470.5
Total Expenditure	1,643.0	2,143.8	2,624.0	2,967.2
Operating Profit	324.3	393.1	463.1	503.2
Other Income	15.5	11.0	10.0	10.0
Depreciation	10.4	14.1	18.2	21.1
EBIT	329.5	389.9	454.8	492.2
Interest	123.1	197.2	266.0	272.1
PBT	206.4	192.7	188.8	220.1
Taxes	73.9	69.6	68.0	77.0
PAT	132.5	123.1	120.8	143.1
Growth in sales (%)	35.2	28.9	21.7	12.4
Growth in Operating profits (%)	43.8	21.2	17.8	8.7
Growth in PAT (%)	22.1	-7.1	-1.9	18.4
OPM (%)	16.5	15.5	15.0	14.5
Net Profit Margin (%)	6.7	4.9	3.9	4.1

Source: Company data, KRChoksey Research.

Balance Sheet

(Rs. Crore)

Particulars	FY11	FY12	FY13E	FY14E
Sources of Funds				
Share Capital	50.5	50.5	50.5	50.5
Reserves and Surplus	618.3	723.7	815.2	929.0
Total Shareholders Funds	668.8	774.2	865.7	979.5
Total Loan Funds	745.6	1,357.1	1,951.8	1,487.8
Total Capital Employed	1,414.4	2,131.3	2,817.6	2,467.3
Application of Funds				
Net Block	159.5	274.8	305.2	324.2
Capital Work in Progress	38.3	33.7	25.0	25.0
Investments	0.1	0.1	0.1	0.1
Net Current Assets	1,214.0	1,822.5	2,487.0	2,117.8
Deferred Tax Assets	2.5	0.2	0.2	0.2
Total Assets	1,414.4	2,131.3	2,817.6	2,467.3

Source: Company data, KRChoksey Research.

Cash flow Statement
(Rs. Crore)

Particulars	FY11	FY12	FY13E	FY14E
PBT	206.4	192.7	188.8	220.1
Add				
Depreciation	10.4	14.1	18.2	21.1
Interest	92.6	162.2	266.0	272.1
Profit before working capital changes	311.6	383.1	473.1	513.2
Working capital changes	-413.1	-670.7	-626.0	321.7
Less Taxes	-69.0	-78.0	-68.0	-77.0
Net CFO	-170.6	-391.8	-220.9	757.9
Net CFI	-66.1	-100.3	-40.0	-40.0
Net CFF	349.3	436.5	299.4	-765.4
Net increase /(decrease) in cash	112.6	-55.7	38.5	-47.5
Op. balance of cash	52.0	164.6	108.9	147.4
Cl. balance of cash	164.6	108.9	147.4	99.9

Source: Company data, KRChoksey Research.

Ratios

Particulars	FY11	FY12	FY13E	FY14E
Profitability Ratios				
OPM (%)	16.5	15.5	15.0	14.5
PAT Margin (%)	6.7	4.9	3.9	4.1
RONW (%)	19.8	15.9	14.0	14.6
ROCE (%)	23.3	18.3	16.1	19.9
Per Share Ratios				
EPS (Rs.)	26.2	24.4	23.9	28.3
CEPS (Rs.)	28.3	27.2	27.6	32.5
BV Per Share (Rs.)	151.2	175.1	195.8	221.5
Valuation Ratios				
P/E (x)	6.1	6.6	6.7	5.7
P/CEPS (x)	5.7	5.9	5.8	5.0
P/BV (x)	1.1	0.9	0.8	0.7
Ev/EBIDTA	4.3	5.2	5.7	4.4
Capital Structure Ratios				
Debt/Equity	1.1	1.8	2.3	1.5
Current Ratio	1.8	1.9	2.1	1.8
Turnover Ratios				
Debtors turnover ratio	1.2	1.1	1.0	1.2
Inventory turnover ratio	14.1	10.8	12.2	12.2
Fixed Asset Turnover	12.3	9.2	10.1	10.7

Source: Company data, KRChoksey Research.

Tecpro Systems Ltd

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Tecpro System Ltd				Rating Legend	
Date	CMP (Rs)	TP (Rs)	Recom.	Our Rating	Upside
16-Nov-12	161	198	BUY	Buy	More than 15%
16-Aug-12	153	204	BUY	Accumulate	5% - 15%
29-May-12	162	204	BUY	Hold	0 – 5%
17-Feb-12	197	228	BUY	Reduce	-5% – 0
31-Jan-12	168	210	BUY	Sell	Less than -5%

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