

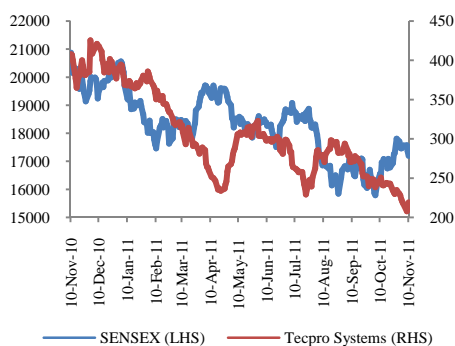
Rating: BUY; CMP: Rs 217; Target: Rs 274; Upside: 26%; Horizon: 1 YR

Previous Rating	Buy
Target Price	Unchanged
EPS FY12E/13E	Unchanged

Stock Info	
Bloomberg Code	TPRO IN
Market Cap (Rs Cr)	1088
Face Value (Rs)	10
Book Value (Rs)	134
EPS (Rs)	26.5
Dividend Yield	1.4%
52 week H/L (Rs)	454.25/207.15
Listed At	NSE/BSE
Equity capital (Rs Cr)	50.47

Promoters Holding as on Sep 2011	
Promoters	52.6%
FII's	3.14%
DII's	18.61%
Others	25.65%

Price Performance %				
	1M	3M	6M	12M
Absolute	-1.5	-22	-28	-47
Rel to Sensex	-5.3	-23	-21	-29



Tecpro Systems (TSL) Q2FY11 results were above our expectations. Top-line registered robust growth of 51% to Rs. 453cr whereas bottom line grew by 67% to Rs 8.6cr on Y-o-Y basis despite higher interest costs. Operating Profit Margins improved to 11.5% vs 10.1% (Y-o-Y). Further increase of debt with higher interest costs and higher working capital on books remains a drag for the company. However, management does not foresee the debt beyond the current level by the end of FY12. Management has guided top-line to sustain 35-40% growth based on the robust order book position and L1s which are in pipeline.

RESULT HIGHLIGHTS

Robust growth in top-line and bottom-line led by strong execution of orders

Tecpro Systems delivered strong sales numbers for both Q2FY12 (up by 51% to Rs. 453cr) & 1HFY12 (up by 46% to Rs 803cr). Net sales and profits came in at Rs. 453cr and Rs 8.6cr in Q2FY12 posting a yoy growth 51% and 67% and qoq growth of 29% and 59% respectively. This stunning performance can be attributed to strong execution in all its orders. Looking at the fact that in this segment, most of the revenue collection and other business activities happens in second half of the year, Tecpro looks set to achieve its management's growth guidance of 35-40% in sales terms for FY12E.

Margins improve yoy; higher interest burden likely to put pressure in future

In Q2FY12, EBITDA and PAT margins expanded by 140 bps and 20 bps to 11.8% and 1.9% respectively. Margins improved on the back of higher growth in sales and lower expenditures as a percentage of sales. However, substantial growth of 85% (yoy) and 21% (qoq) in interest cost at Rs 40cr limited the bottom line.

Debt increases further; management expects current levels these levels

Debt on the books in H1FY12 stood at Rs 907.5cr (after adjusting cash and cash equivalent) which was doubled of the H2FY11. The exponential growth in debt (ex cash and cash equiv.) was due to lower collections which management expects to improve in second half of FY12.

Higher Working Capital remains a cause for concern

Working capital has not witnessed any improvement which is in-line with our expectations. High working capital since last few quarters has remained a cause for concern for the company though in complete BoP segment or EPC segment, it can be considered as an industry trend. Sundry debtors have risen 57% in Q2FY12 due to lower collection. High retention money at Rs 570cr which is 56% of Tecpro's debt of Rs. 1021cr and not due for collection in next 2 quarters, would keep the WC levels high going ahead.

VALUATIONS:

At CMP of Rs 217, stock is trading at 7x FY12E and 5.5x FY13E on earnings per share of Rs 31.1 FY12E and 39.4 FY13E. We expect earnings of Tecpro Systems to grow by 15% on revenue growth of 35% in FY12E. In view of substantial growth potential, healthy financials and attractive valuations, we retain our BUY recommendation on Tecpro with a target of Rs 274 (DCF based) which provides ~26% potential upside in next 12 months.

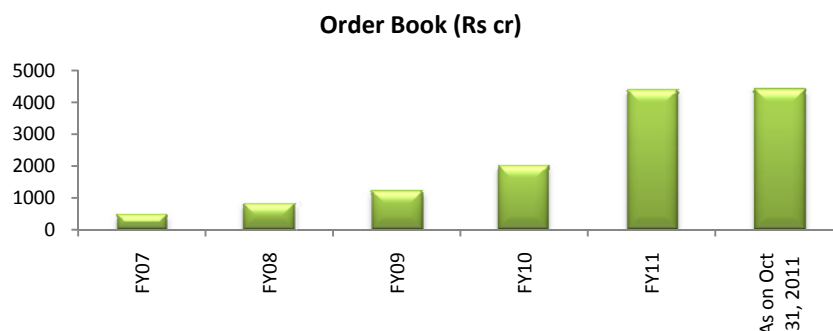
Particulars	FY10	FY11	FY12E	FY13E
Net Sales (Rs cr)	1475.9	1985.6	2681.4	3485.9
EBITDA (Rs cr)	212.6	282.9	341.8	399.0
EBITDA Margin%	14.6	14.4	12.9	11.5
PAT (Rs cr)	109.7	136.2	156.8	198.8
PAT Margin%	7.5	6.9	5.9	5.8
EPS (Rs)	24.3	26.5	31.1	39.4

OTHER HIGHLIGHTS

Healthy Order Book & Inflows

In second quarter of FY12, Tecpro has added orders to the tune of Rs. 867cr, mainly led by cement sector. The current order book at the end of Q2FY11 stands at Rs 4440cr. In the month of October, company received a major order from NTPC worth Rs. 405cr for their Pakri projects. With this new order, Tecpro will have approx Rs 660cr under execution for NTPC Pakri project (Tecpro is already executing a order of ~ Rs 200 cr for NTPC Pakri project).

In addition, Tecpro is L1 in Rs. 1000cr odd projects which majorly include CHP and AHP for NTPC. Management expects order book to grow by 35%-40% in FY12 backed by strong execution capabilities and long standing relationship with its old clients.



OUTLOOK & VALUATION

The government's thrust to the core power sector of the economy has led to power generation targets being bigger than ever, translating into a huge opportunity for BOP players. We believe that Tecpro Systems, being one of the very few established players would be key beneficiary of the same. With its successful entry into full BoP segment, Tecpro Systems has significantly moved up the value chain.

Tecpro has an order book of Rs. 4440 cr. (1.67 FY12E revenues), provides strong revenue visibility in FY12. Company has witnessed exponential growth in last 5 years with net sales at Rs 482cr in FY2008 to Rs 1968cr in FY2011. Going forward, we expect the top line and bottom line to grow 35% and 15% respectively in FY2012.

Presently, its peer group companies (BGR, McNally, Elecon) are trading at an average of 6.5x P/E and 5.2x EV/EBITDA on FY13E. We expect Tecpro Systems to command a premium over its peer group due to 1) Strong revenue visibility in order book 2) several technical tie-ups to bridge the capability gaps and improve the operations 3) Higher return ratios 4) Increasing backward integration with entry into civil works and water segment to strengthen the in-house activities.

At CMP, stock is trading at 7 xFY12E earnings with an EPS of Rs. 31.1 in FY12E. We retain BUY recommendation on Tecpro Systems with a target price of Rs.274 (DCF based), which implies ~26% upside from current levels.

PROFIT & LOSS A/C - QUARTERLY					
Particulars (Rs cr)	Q2FY11	Q1FY12	Q2FY12	Growth Q-o-Q	Growth Y-o-Y
Operating Income	300.1	349.8	453.1	29.6%	51.0%
Other Income	1.9	2.4	3.8	57.6%	95.3%
Stock Adjustment	48.3	39.5	34.5		
Total Expenditure	318.2	347.9	435.7	25.2%	36.9%
EBITDA	30.2	41.3	52.0	25.8%	72.1%
Interest	21.7	33.1	40.0	21.1%	84.6%
Depreciation	2.5	2.7	3.0	12.3%	19.4%
Tax	4.2	2.6	4.1	57.1%	-1.9%
Reported Profit After Tax	5.2	5.4	8.6	59.6%	66.8%
EBIDTM (%)	10.1%	11.8%	11.5%		
PATM (%)	1.5%	1.4%	1.7%		
EPS (Rs.)	1.0	1.1	1.7		

BALANCE SHEET HALF YEARLY				
Particulars (Rs cr)	31-Mar-10	30-Sep-10	31-Mar-11	30-Sep-11
Share Capital	44.2	44.2	50.5	50.5
Reserves & Surplus	308.0	312.9	627.9	641.8
Loan Funds	486.8	734.0	746.9	1021.8
Total Liabilities	839.0	1091.1	1425.2	1714.1
Fixed Assets	131.8	135.6	161.2	218.6
Investments	9.4	27.3	37.0	36.6
Current Assets, Loans & Advances-	1478.4	1573.6	2339.8	2464.8
Inventories	106.2	159.9	139.9	211.4
Sundry Debtors	917.6	915.6	1407.3	1439.7
Cash & Bank Balance	182.0	144.9	299.2	114.3
Other Current Assets	198.5	116.7	357.1	220.7
Loans & Advances	74.1	236.4	136.3	478.8
Current Liabilities & Provisions-	781.9	646.5	1115.3	1010.7
Current Liabilities	737.4	639.6	1062.4	1002.5
Provisions	44.5	6.8	52.9	8.3
Net Current Assets	696.5	927.1	1224.5	1454.0
Deferred Tax Assets	1.2	1.0	2.6	4.8
Total Assets	839.0	1091.1	1425.2	1714.1

FINANCIALS – TECPRO SYSTEMS

BALANCE SHEET (Rs cr)					
	2009	2010	2011	2012E	2013E
Share Capital	27.7	44.2	50.5	50.5	50.5
Reserves Total	132.4	308.0	627.9	769.6	953.3
Total Shareholders Funds	160.1	352.2	678.4	820.0	1003.7
Total Debt	99.8	486.8	746.9	750.0	750.0
Total Liabilities	259.9	839.0	1425.2	1570.0	1753.7
Net Fixed Assets	26.7	120.8	132.8	170.5	199.9
Capital work in progress	54.5	11.0	28.4	31.3	23.6
Investments	22.81	9.42	36.96	0	0
Inventories	79.3	106.1	139.9	183.3	230.3
Sundry Debtors	387.5	917.6	1407.3	1771.6	1818.2
Cash & Bank	95.5	182.0	299.2	441.6	603.0
Loan & Advances	51.3	272.7	493.4	513.0	709.7
Total Current Liabilities	457.1	781.9	1115.3	1541.3	1830.9
Taxes	-0.6	1.2	2.6	0.0	0.0
Total Assets	259.9	839.0	1425.2	1570.0	1753.7

CASH FLOW STATEMENT (Rs cr)					
	2009	2010	2011	2012E	2013E
Cash flows from operations	36.4	199.8	135.8	288.9	330.9
Cash flows from investing activities	-	-3.0	-51.9	-15.9	-37.3
Cash flows from financing activities	62.9	289.4	304.8	-130.5	-132.3
Cash generated/(utilized)	55.5	86.5	117.2	142.5	161.4
Net cash at beginning of the year	40.0	95.5	182.0	299.2	441.6
Net cash at end of year	95.5	182.0	299.2	441.6	603.0

PROFIT & LOSS ACCOUNT (Rs cr)					
	2009	2010	2011	2012E	2013E
Operating Income	707.0	1454.9	1968.4	2657.4	3454.6
% growth	46.6	105.8	35.3	35.0	30.0
Expenditure	644.9	1242.3	1685.6	2315.6	3055.6
EBITDA	62.1	212.6	282.9	341.8	399.0
% growth	-9.5	242.2	33.1	20.8	16.7
Other Income	9.1	20.9	17.2	24.1	31.3
Interest	13.1	71.4	123.1	112.4	108.8
Depreciation	3.1	7.3	10.3	12.3	15.6
PBT	81.9	168.4	210.0	241.2	305.9
% growth	24.1	105.6	24.8	14.9	26.8
Tax Paid	31.2	58.7	73.8	84.4	107.1
PAT	50.7	109.7	136.2	156.8	198.8
% growth	23.2	116.3	24.2	15.1	26.8
APAT	50.7	109.7	136.3	156.8	198.8
% growth	23.2	116.4	24.3	15.0	26.8

KEY RATIOS					
	2009	2010	2011	2012E	2013E
Per Share Ratios					
Basic EPS	17.5	24.3	26.5	31.1	39.4
Book Value	57.8	78.0	133.0	162.5	198.9
Cash Earning per Share	19.4	26.5	29.0	33.5	42.5
Dividend per Share	5.0	3.0	3.0	3.0	3.0
Valuation Ratios					
P/E (Diluted)			10.6	7.0	5.5
P/BV			2.1	1.3	1.1
EV/EBIDTA			5.5	4.1	3.1
EV/Sales			0.8	0.5	0.4
Profitability Ratios					
RoCE%	30.3	37.4	24.1	22.0	23.1
RoE%	31.7	31.1	20.1	19.1	19.8
Turnover Ratio (%)					
Working capital cycle (days)	60.8	66.0	95.9	132.5	101.0
Inventory (days)	40.4	26.3	25.6	24.8	24.0
Debtors (days)	155.0	161.5	212.6	240.0	189.5
Creditors (days)	134.7	121.7	142.3	132.3	112.5
Leverage Ratios					
Debt-equity ratio (x)	0.6	1.4	1.1	0.9	0.7
Interest coverage ratio (x)	4.5	2.9	2.2	2.9	3.5
Margin Ratios					
EBIDTA Margin %	8.8	14.6	14.4	12.9	11.5
PBT Margin %	11.6	11.6	10.7	9.1	8.9
PAT Margin %	7.2	7.5	6.9	5.9	5.8

Stock Ratings	
BUY	The stock's total return is expected to exceed 15% over the next 12 months
ACCUMULATE	The stock's total return is expected to be within 10-15% over the next 12 months
HOLD	The stock's total return is expected to be within 0-10% over the next 12 months
SELL	The stock's total return is expected to give negative returns over the next 12 months
NOT RATED	The Analyst has no recommendation on the stock under review

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