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Mumbai

CRISIL Research assigns IPO grade 4/5 to Tecpro Systems Limited

CRISIL has assigned a CRISIL IPO Grade "4/5" (pronounced "four on five") to the proposed initial public offer (IPO) of Tecpro Systems Ltd (Tecpro). This grade indicates that the fundamentals of the IPO are above average relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The IPO grade assigned to Tecpro reflects its position as one of the leading players in the material handling industry with strong capabilities in bulk (mainly coal) and ash handling. The grade takes into account Tecpro's foray into the balance of plant (BOP) segment in the power sector. The company led a consortium to win a Rs 9.9 bn BOP order from Chhattisgarh State Power Generation Company Limited for a thermal power project in Korba. The grade also factors in Tecpro's healthy order book position of Rs 20.1 bn as on March 31, 2010. Significant capacity addition expected in the power sector support a strong outlook for order flows. CRISIL Research expects 80,000 MW of capacity to be added over the next five years, of which BOP orders for ~50% are yet to be awarded. Tecpro has a strong execution track record backed by an experienced management. The grade has also factored in the improvement in corporate governance practices, and internal processes and controls. Further, Tecpro has simplified its corporate structure to make it leaner and transparent.

However, the grade is constrained by the increase in concentration risk with the Chhattisgarh order accounting for ~47% of the order book. Any delay in execution could have a material impact on the revenues going forward. Also, this project is under litigation. One of the bidders of this project had filed a special leave petition, which is pending before the Supreme Court of India. Any adverse decision on this may have an adverse impact on Tecpro's operations and results. Moreover, a large number of orders from government entities have stretched Tecpro's finances since payments from them are generally delayed.

About the company and the issue

Incorporated in 1990, Tecpro is one of the leading material handling companies in India engaged in providing turnkey solutions in bulk (mainly coal) handling, ash handling and BOP. It designs, engineers, manufactures, sells and services a range of systems and equipments which are used in material handling. The company mainly caters to the power, steel and cements sectors.

In 2008-09, Tecpro reported a net profit of Rs 554 mn on a turnover of Rs 8.1 bn, translating into a net margin of 6.8%. Its revenues registered a CAGR of 98.8% during FY06-09. It posted an EPS of Rs 20.0 at the end of FY09, while its book value per share was Rs 57.6. Tecpro's RoE for FY09 was 34.7%.

Tecpro's management is headed by Mr Ajay Kumar Bishnoi, Chairman and Managing Director, and Mr Amul Gabrani, Vice Chairman and Managing Director. Both of them have close to three decades of experience in the material handling industry. The company's second line of management is also fairly experienced and has been with the company for a long period of time. Tecpro's board comprises 12 directors, of whom six are independent directors.

Tecpro plans to utilise the net proceeds from the issue to meet the working capital requirement and for general corporate purposes.

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