

Tecpro Systems Limited

CRISIL IPO Grade 4/5 (Above average)

August 17, 2010

Grading summary

CRISIL has assigned a CRISIL IPO Grade '4/5' (pronounced "four on five") to the proposed IPO of Tecpro Systems Limited (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 offer price for the issue may be higher or lower than the level justified by its fundamentals. The grade is not a recommendation to buy/sell or hold the graded instrument, its future market price or suitability for a particular investor. To arrive at the overall grade, amongst various other parameters, CRISIL has considered company's business prospects, its financial performance, management capabilities and corporate governance practices.

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 (coal) and ash handling. The grade takes into account Tecpro's foray into the balance of plant (BOP) space 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.

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%.

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About the company

Tecpro Systems Limited (Tecpro), incorporated in 1990, is an established material handling company in India engaged in providing turnkey solutions in bulk material handling (mainly coal) and ash handling. It designs, engineers, manufactures, sells and services a range of systems and equipments which are used in material handling. It mainly caters to the power, steel and cement sectors. The company also provides turnkey EPC services for thermal power projects wherein it takes orders for power plants with 30-50 MW capacities. The company also recently forayed into the BOP space.

Tecpro's revenues amounted to Rs 8.1 bn in FY09, with EBITDA margin of 13.4% and net margin of 6.8%. The company has an order book of Rs 20.1 bn as on March 31, 2010 - 47% from BOP, 35% from bulk material handling and 18% from ash handling.

Tecpro's management is headed by Mr Ajay Kumar Bishnoi, Chairman and Managing Director, and Mr Amul Gabrani, Vice-Chairman and Managing Director. Mr Bishnoi has more than 31 years of experience in the material handling Industry. Mr Gabrani is one of the founding members of the company and has more than 28 years of experience in the material handling Industry.

Issue details

Shares offered to public	7.55 mn
As per cent of post issue equity	14.9%
Object of the Issue	Funding working capital requirement and general corporate purposes
Amount proposed to be raised	Not available at the time of grading
Price band	Not available at the time of grading
Lead managers	SBI Capital Markets Limited and Kotak Mahindra Capital Company Limited

Detailed Grading Rationale

A. Business Prospects

- ***Strong player in material handling***

Tecpro is one of the leading players in material handling. The company is engaged in providing turnkey solutions in bulk material handling (mainly coal), ash handling and balance of plant (BOP). The company mainly caters to the power, steel and cement sectors. Tecpro has grown at a rapid pace, registering a CAGR of 98.8% in the past three years during FY06-FY09. Its clientele includes Reliance Energy, NTPC, Lanco Infratech Ltd, SAIL, Grasim Limited, JSW Steel Ltd and Punj Lloyd. Tecpro has been continuously adding new clients and has also bagged repeat orders from existing clients. Orders from large clients such as NTPC and Reliance in the past two-three years have further consolidated Tecpro's position in the industry.

- ***Moved up the value chain by foraying into BOP***

Tecpro has moved up the value chain from being a material handling player to an EPC player in the BOP space. The company has won a Rs 9.9 bn BOP order in consortium with Gammon India Limited, VA Tech Wabag Limited and erstwhile Tecpro Ashtech Limited from Chhattisgarh State Power Generation Company Limited (CSPGCL) for a thermal power project in Korba. Tecpro is entitled to do coal and ash handling work, and civil and electrical works (amounting to ~Rs 8.4 bn), while the other consortium members are entitled to set up a water cooling plant and some other works (amounting to ~Rs 1.5 bn). BOP contracts are generally granted on a turnkey basis for coal-based thermal power plants and include coal and ash handling solutions, setting up of cooling towers, switchyard and plant electrical, water treatment plants and other auxiliary civil construction.

- ***Strong industry prospects***

Order inflows in the next few years are expected to remain strong driven by significant capacity addition in the power sector. 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. Capex of ~Rs 45 mn, with ~30-35% of this amount slated for BOP for each MW of capacity, translates into immense opportunities for BOP and material handling players. Power capacity addition by private players will further boost the growth of material handling and BOP players.

- ***Healthy order book***

The company has a strong order book of Rs 20.1 bn as on March 31, 2010, which provides sufficient revenue visibility for the company. This order book comprises 47% from BoP, 35% from bulk material handling and 18% from ash handling.

- ***Concentration risk***

The BOP order from CSPGCL accounts for 47% of Tecpro's current order book of Rs 20.1 bn as on March 31, 2010. This exposes the company to a concentration risk as any delay or other execution-related problems on this project could have an impact on the revenues going forward. Also, the project is under litigation. One of the bidders had filed a writ petition against CSPGCL and others in the High Court of Chhattisgarh in which it was alleged that its bid was rejected by CSPGCL on arbitrary grounds. The High Court of Chhattisgarh

dismissed the writ petition. It has now filed a special leave petition which is pending before the Supreme Court of India. Any negative court decision will adversely affect Tecpro's operations and results.

- *High debtor days*

Tecpro's working capital is stretched given high debtor days since a large proportion of the orders are from the government, which has a typically higher payment period; also there is retention money of ~10% on orders which generally get released post six months of completion of the work. With a large proportion of order book from the government, debtor days at the end of FY09 for Tecpro stood at 190 days.

B. Financial Performance

For the fiscal year ended March 31, 2009, Tecpro's revenues grew 59% y-o-y to Rs 8.1 bn. The company posted EBITDA margin of 13.4% compared to 14.4% in FY08. Net profit for FY09 stood at Rs 554 mn as against Rs 409 mn in FY08, registering a growth of 35.5%.

For the seven months ended October 31, 2009, the company posted revenues of Rs 5.1 bn and a profit of Rs 114 mn. However, the numbers for FY10 are expected to be much better as the last quarter generally accounts for 40-45% of the revenues (since the work picks up post monsoon) and also has higher margins due to the benefits of operating leverage.

Financial performance snapshot

		FY09	7 months ending 31 st October 2009
		Actual	Actual
Operating income	Rs mn	8,113	5,128
EBITDA margins	Per cent	13.4	10.6
Net profits	Rs mn	554	114
Net margins	Per cent	6.8	2.2
ROCE	Per cent	39.3	-
RONW	Per cent	34.7	-
Basic EPS	Rs	20.0	2.6
Diluted EPS	Rs	20.0	2.6
No. of equity shares	mn	27.7	44.2
Net worth	Rs mn	1,595	2,586
Book value (FV Rs 10)	Rs	57.6	58.5
Current ratio	Times	1.4	1.7

**Note: Numbers have been reclassified as per CRISIL standards*

Source: DRHP, Company

C. Management Capabilities and Corporate Governance

Tecpro's management is headed by Mr Ajay Kumar Bishnoi, Chairman and Managing Director, and Mr Amul Gabrani, Vice Chairman and Managing Director. Mr Bishnoi started his career in 1978 as a management trainee in Bharat Forge Company Limited and has more than 31 years of experience in the material handling Industry. Mr Gabrani is one of the founding members of the company. He started his career with Ingersoll Rand in 1981 and has more than 28 years of experience in the material handling Industry.

The company also has a strong and experienced second line of management in place. The functional heads have strong domain expertise and are well aware of the business opportunities, their strengths and weaknesses. We feel the management is capable and has given reasonable autonomy to the second line to take independent decisions for executions of projects.

Decision making has been decentralised with the second line playing an important role in the overall decision-making process. The company has also appointed an internal auditor and the internal controls and processes are in line with the size of the company. CRISIL Equities believes that the steps taken by the company to improve the internal controls and processes are in the right direction. The management realises that there is room for improvement and, therefore, is planning to implement the ERP system.

Tecpro's board comprises 12 directors, of whom six are independent directors; out of which five have been with Tecpro for three-four years, while one was appointed recently. The board includes professionals and industrialists from different fields with good experience and knowledge.

All the independent directors on the board have a fair understanding of the company's business. Based on our conversation with the independent directors, we believe that they are fairly conversant with their roles and responsibilities in the company. The board meetings are held regularly and the agenda papers reach the independent directors in advance.

Tecpro has also simplified its corporate structure in the past two-three years. The ash handling business, which was acquired under the promoter group entity, has been merged with Tecpro. Tecpro Power, another subsidiary of the company (also had promoter holding in this), has been merged with Tecpro to create a simpler and transparent structure.

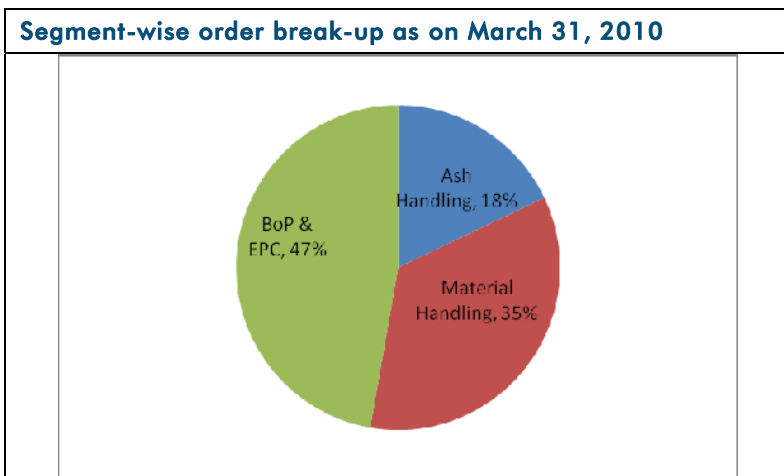
Annexure I Business Profile

Tecpro is an established material handling company in India engaged in providing turnkey solutions in bulk handling (mainly coal). 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 cement sectors.

In order to expand its scope of services, the company integrated (merged) the ash handling business of Tecpro Ashtech Limited ("TAL", previously known as Mahindra Ashtech Limited) which was acquired from Mahindra Group with the existing material handling operations (TAL had been engaged in the business of ash handling systems for over 40 years). Tecpro has now begun to focus on turnkey BOP contracts in the thermal power generation sector, which includes designing and engineering, manufacturing and sourcing of equipments and packages, project management and commissioning.

In 2007, the company entered the EPC segment for thermal power projects. This business was undertaken through its erstwhile subsidiary Tecpro Power wherein it used to take work for power plants with 30-50 MW capacity. The company either collaborates or outsources to a third party supplier for providing BTG packages. Tecpro Power was also merged with Tecpro w.e.f. March 31, 2010.

Tecpro has an order book of Rs 20.1 bn as on March 31, 2010. The break-up of the order book is as follows:



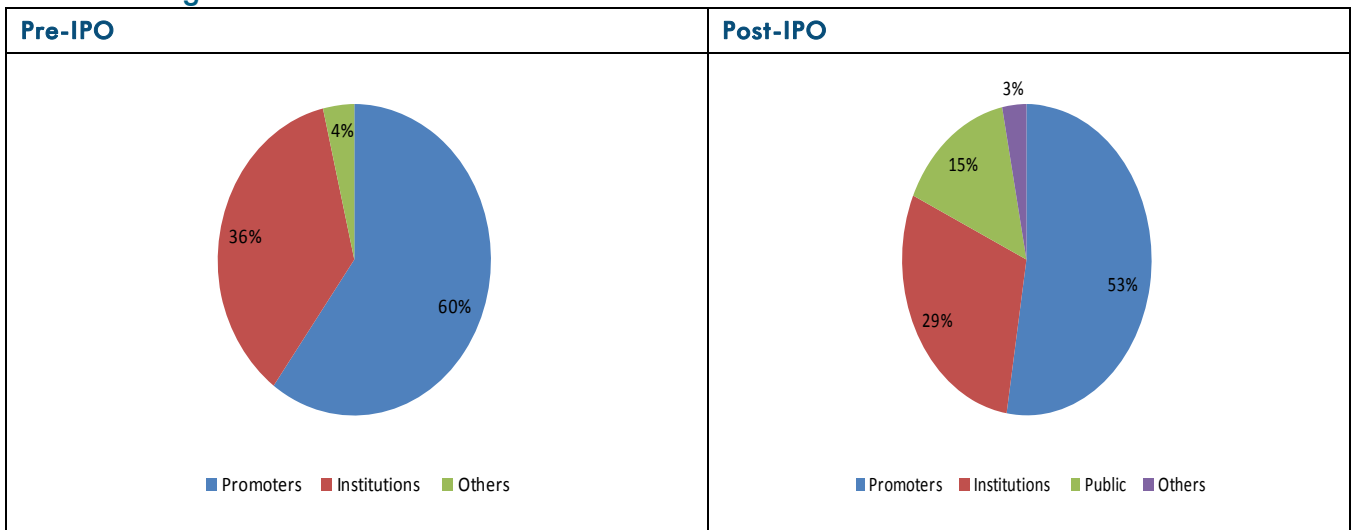
Source: DRHP, Company

Management and Board Profile

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 about 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; five of them have been with Tecpro for two-three years, while one was appointed recently.

Shareholding Pattern



Source: DRHP

Annexure II: Profile of the Directors

Name	Designation	Age	Qualification	Experience (years)	Past Experience
Mr Ajay Kumar Bishnoi	Chairman and Managing Director	52	B.Com, Kolkata; Master's diploma in business administration from Institute of Management Development and Research, Pune	31+	Eagle Flasks Limited, Usha Breco Limited, Beardsell Engineering (a division of Nava Bharat Ferro Alloys Ltd) and Fenner (India) Ltd
Mr Amul Gabrani	Vice-Chairman and Managing Director	50	Mechanical engineering, Master's in business administration from University of Delhi	28+	Voltas Ltd, Fenner (India) Ltd and Ingersoll Rand
Dr. Goldie Gabrani	Whole-time Director	47	Engineering (electronics and communication), Master's degree in electrical engineering, Degree of Doctor of Philosophy	22+	Professor of Delhi College of Engineering and head of Department of Computer Engineering and Information Technology
Mr Arvind Kumar Bishnoi	Whole-time Director	25	Bachelor's degree in engineering (electronics & communication), Master's degree in business administration, Symbiosis, Pune	1+	NA
Mr Amar Banerjee	Whole Time Director	63	Bachelor's degree in engineering (mechanical) from Jadhavpur University, Kolkatta	39+	Mahindra Ashtech Limited handling marketing, manufacturing and sales
Mr Achal Ghai	Non Executive Director	46	B.Com and Master's degree in business administration	25+	Experience in corporate and investment banking in India, Dubai and Canada
Mr Suresh Kumar Goenka	Independent Director	53	B.Com, chartered accountant	25+	Price Waterhouse & Co. , Presently own practice in the name of Goenka Suresh & Associates
Mr Brij Bhushan Kathuria	Independent Director	54	B.Sc. and chartered accountant	26+	Senior management roles in companies based in Africa and the Middle East
Mr. Satvinder Jeet Singh Sodhi	Independent Director	56	Management Accountant, Chartered Accountant and LLb	30+	Had been a civil servant and held key positions in various government departments and was Executive Director of Delhi Stock Exchange
Mr. Anunay Kumar	Independent Director	64	BE(Mech), Ranchi and Diploma in Management	43+	Mecon Limited, JSW Steel Limited etc.
Mr. Sakti Kumar Banerjee	Independent Director	65	BE (Civil) from University of Jadavpur	30+	Chairman & managing director, NALCO
Mr. Subrata Kumar Mitra	Independent Director	62	MSc, Kolkata, MBA, US	25+	Standard Chartered Bank, American Express Bank, GIC Mutual Fund and Aditya Birla Group

Source: DRHP

Disclaimer

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