



24th September 2010

Tepro Systems Limited

Recommendation: **Subscribe**

Issue Summary

Price Band (Rs)	340	355
Bid Lot	15 shares	
Face Value	Rs.10	
Opens on	23 rd Sept.'10	
Closes on	28 th Sept.'10	
Fresh Issue	62.5 lacs	
Offer for Sale	13.0 lacs	
Total no of shares to be raised	75.5 lacs	

Pre-issue share capital	Rs. 44.2 crs	
Post-issue share capital	Rs. 50.45 crs	
Fresh Issue Size	Rs.6.25 crs	
Post Issue Market Cap	Rs. 1715 crs	Rs. 1791 crs
P/E for FY10	13.6	14.2

Net Issue	No. of Shares	%
QIB's	37.5 lacs	60
NIB	6.25 lacs	10
Retail	17.06 lacs	27.3
Employees	1.69 lacs	2.7
Total	75.5 lacs	100

Company & Business Profile

Tepro Systems Limited is an established material handling company, 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 cements 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 Balance of Plant (BOP) space. The company is one amongst the largest material handling companies in the country.

Tepro's management is headed by Ajay Kumar Bishnoi and Amul Gabrani—both of them have three decades of experience in the material handling Industry.

Tepro has seven collaborations for various material handling equipment and technologies, and three collaborations in relation to ash handling operations. Some of the technical collaborations include FAM Magdeburger Forderanlagen and Baumaschinen GmbH, Germany and Hein, Lehmann, Trenn-und Fordertechnik GmbH, Germany.

Tepro has an impressive track record of growth and performance that is amply reflected in the growth of the company to Rs. 710 crs in seven year and with manufacturing plants and offices in all major cities of the country. Tecpro has also been rated in the SME-1 category by CRISIL the leading financial rating agency in India for the company's financial strength. This rating has been received ever since the assessment began.

Objects of the Issue

- **Fund working capital requirements:** The Company intends to use Rs. 200 cr from the net proceeds to fund working capital requirements.
- **General Corporate Purposes:** The Company intends to deploy a part of the proceeds towards general corporate purposes.

Shareholding Pattern

	Pre-issue	Post Issue
	% holding	% holding
Promoter & Promoter Group	60.03	52.59
Non-promoter group	39.97	47.41
Total	100.00	100.00

Investment Positives

Book Running Lead Managers:

- SBI Capital Market Ltd.
- Kotak Mahindra Capital Ltd.

- **Strong order book:**

The Company's order book as on July 31, 2010 stands at Rs. 2310 cr, 1.6x FY10 sales, provides healthy revenue visibility for the near- to medium-term. The order book is well diversified over various sectors such as Power, Steel, and Cement. Additionally, the order book has exposure of PSU and private sector clients.

The Company is executing 77 projects for PSU clients and 228 projects for private sector clients, currently. The client-oriented approach enables the Company to develop long-term relationships with their clients and receive repeat orders from them. Hence as of July 31, 2010, the Company received repeat orders from 141 clients for 1,222 orders for material handling and 78 repeat orders from 21 customers for ash handling. This suggests that the Company has potential to tap opportunity across varied sectors in the coming future.

- **Huge growth opportunities in power sector:**

The demand for power in India is growing at a fast pace with rapid industrialisation and rapid urbanisation. Given the company's expertise it can be expected to reap rich benefit from this impending demand boom.

- **Technical collaboration to provide an edge:**

The Company has an edge over its competitor due to its tested and proven globally accepted technology. The company is having technical collaborations and license agreements with international companies. These collaborations and alliances provide it access to advanced technologies and expertise. We believe procurement of such advanced technology along with its project management, engineering and construction capabilities would act as an entry barrier for new companies.

Concerns

- **Pending litigations might dampen growth:**

Tecpro and its group companies are involved in a number of legal proceedings amounting Rs. 1120cr. The proceedings, if determined against the Company, could have a significant and adverse impact over the Company's financial condition, operations and growth prospects.

- **High dependence on single project:**

The BOP order from CSPGCL (Chhattisgarh State Power Generation Company Limited) constitutes ~41% of the Company's outstanding order book of Rs. 2310 cr as on July 31, 2010. Thus, the Company is susceptible to the risk of high concentration over one client. Moreover, the order is also under litigation from one of the bidders for the project. The Company might face difficult operational and financial challenges if the litigation is determined against them.

Profit & Loss Account (Rs. in crs)

Paticulars	FY 2008	FY 2009	FY 2010
Revenues	505.4	826.2	1454.9
Cost of sales	393.9	674.3	1150.4
Depreciation	2.6	3.4	7.3
Selling and admn expenses	42.5	55.3	78.3
Operating profit	66.5	93.3	218.9
Other income / Expense	4.4	12	20.9
Interest expensed	5	14.4	71.4
Profit Before Tax	65.9	90.9	168.4
Tax	24.9	35.5	58.7
Minorities	0.2	1.1	2.1
Exceptional items	0.1	0.3	0.2
Net profit	40.6	54.6	107.7
EPS	15.2	19.7	24.4

Recommendation

The expected growth in core sectors like power, steel and cement provides an excellent opportunity to the company to consolidate its position in the segment. A professionally managed growth driven company it's weighted average RONW in the last three years was in excess of 35%. At Rs 340-355, the issue is priced around 17 times, its FY 10 earnings, on post issue capital of Rs50.45cr. We believe the issue is attractively priced and would therefore recommend a "subscribe" on the issue.

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