kotak Institutional Equities

BGR Energy Systems (BGRL)

Industrials

BUY

JUNE 10, 2010

UPDATE

Coverage view: Attractive

Price (Rs): 673

Target price (Rs): 800

BSE-30: 16,922

Admirable scale-up; helps open up large opportunity further. Key highlights from the BGR Energy management meeting were (1) existing backlog to drive strong growth in FY2011E, (2) JV with Hitachi broadens scope of the company—expects to win Rs150 bn new orders in FY2011E with several large opportunities in the offing, (3) new orders to drive strong growth in FY2012E as well, and (4) has managed execution, margins and working capital very well so far. Reiterate BUY with a revised TP of Rs800.

Company data and valuation summary

BGR Energy Systems

Stock data			
52-week range (Rs) (high,low)			678-256
Market Cap. (Rs bn)			48.4
Shareholding pattern (%)			
Promoters			81.3
FIIs			1.8
MFs			6.8
Price performance (%)	1M	3M	12M
Absolute	16.7	30.7	90.3
Rel. to BSE-30	19.5	32.1	73.9

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	28.0	39.7	49.2
EPS growth (%)	74.6	41.9	24.0
P/E (X)	24.0	16.9	13.7
Sales (Rs bn)	30.8	46.7	60.9
Net profits (Rs bn)	2.0	2.9	3.5
EBITDA (Rs bn)	3.5	5.2	6.6
EV/EBITDA (X)	13.6	10.0	8.1
ROE (%)	31.8	35.1	33.4
Div. Yield (%)	1.0	1.2	1.5

Existing backlog to drive FY2011E revenue while likely large new orders to boost FY2012E growth

We expect strong execution of the existing large EPC orders to drive the revenues of FY2011E—have built revenues of Rs46.7 bn (up 52% yoy) versus management guidance of 60% growth. FY2012E earnings are likely to be boosted by execution of residual value of the existing orders and expected new order wins of Rs81 bn in FY2011E. The company expects to win orders to the tune of Rs150 bn in FY2011E—has already placed bids for several large orders including two supercritical EPC orders for RRVUNL. We expect the company to win at least one of the two 2X660 MW orders in the state of Rajasthan.

Hitachi equipment JV to be finalized soon; builds long-term growth visibility

We believe that the Hitachi JV (likely to be finalized by end-July) is necessary for BGR to establish long-term growth potential, as the BoP space gets more competitive. While the market appears crowded, we believe that BGR's capability to offer full BTG and existing understanding of EPC business provides it an advantage versus other players. Furthermore, incumbent advantage may be lower in the supercritical space as initially most vendors would have to import a large component of the equipment. The manufacturing facility is likely to require a capital investment of about Rs32-35 bn with BGR's equity stake of Rs5-6 bn (over 3 yrs—funded through internal accruals).

Needs to increase presence in private sector versus focus on SEBs earlier; likely higher WCap levels

Other key highlights include (1) with rising role of private players, company would need to scale up presence in private space—has been focused on SEBs so far and (2) increasing proportion of large EPC orders in the backlog may lead to higher WCap levels—could adversely impact cash flows.

Revise estimates and target price to Rs800/share; reiterate BUY

We revise our estimates to Rs39.7 and Rs49.2 from Rs36.2 and Rs46.3 for FY2011E and FY2012E, respectively, and our TP to Rs800 from Rs700 based on (1) higher execution estimates in FY2011E and FY2012E and (2) 18X Sep-11E earnings from 17X earlier. Reiterate BUY based on (1) strong execution of large EPC orders, (2) high near-term revenue visibility, (3) potential to ramp up presence in the power sector and (4) strong visibility on Hitachi JV.

QUICK NUMBERS

- Expect revenue growth of 52% and 30% in FY2011E and FY2012E
- Management guides for strong inflows of Rs150 bn in FY2011E
- Hitachi JV to be finalized by July-2010; equity requirement of Rs5.5-6 bn

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Several large orders in the pipeline; expects inflows of Rs150-200 bn in FY2011E

The company is aiming at bidding for orders to the tune of about Rs350-400 bn in FY2011E and expects to win orders of about Rs150-200 bn. The opportunities in the near term include (1) EPC order for 2X660 MW Suratgarh project and (2) 2X660 MW Chhabra project for Rajasthan Rajya Vidyut Utpadan Nigam Ltd (Rs65 bn each), (3) EPC order for 350 MW gas-based project in Gujarat (Dhuvaran) and (4) BoP order for 3X660 MW Koradi power plant in Maharashtra. The company has already placed bids for these orders. The competition has been relatively limited for the two Rajasthan state EPC orders with only two bidders (BHEL and BGR Energy) for one project and three bidders (BHEL, BGR Energy and Power Machines, Russia) for the other. However, for the Koradi BoP order (located close to Kaperkheda plant) we expect the company to face stiff competition, especially from L&T which is executing the BTG portion of the power project.

We believe that the company may win one of the two Rajasthan state orders based on demonstration of strong execution capability in the Kalisindh order—likely to have completed about 50% of the project by the time these orders are placed. For the initial supercritical orders, the company would import the Boiler and Turbine from Hitachi and supply in the domestic market.

The company also plans to participate in the 9X800 MW bulk tendering of NTPC which is likely to open in Sept-Oct 2010 (would have Hitachi JV in place by end-July) and the Jindal Power tender for 10X660 or 8X800 MW BTG order. However, we believe that these orders are unlikely to be finalized in FY2011E and may flow into FY2012E.

BGR has already bid for orders worth Rs15 bn; several other large orders in the offing
List of orders likely to be bid out in the near future

Project	State	Client	Configuration	Type of contract
Bids placed				
Suratgarh	Rajasthan	RRVUNL	2X 660 MW	EPC
Chhabra	Rajasthan	RRVUNL	2X 660 MW	EPC
Dhuvaran	Gujarat	GSECL	350 MW	EPC
Koradi	Maharashtra	MAHAGENCO	3X 660 MW	BoP
Upcoming tenders				
Bulk tender		NTPC	9X 800 MW	BTG
Bulk tender		Jindal Power	10X 660 / 8X 800 MW	BTG
Wanakbori	Gujarat	GSECL	1X 800 MW	EPC
Salboni	West Bengal	JSW Energy	2X 800 MW	BTG

Source: Projects Today, News flows, Kotak Institutional Equities

We build order inflows of Rs81 bn in FY2011E and Rs106 bn in FY2012E

We have presently built in order inflows of about Rs81 bn in FY2011E constituting of Rs16 bn of orders from BoP segment (implies 2X500 MW BoP order) and Rs65 bn from EPC segment (expect company to win 2X660 MW supercritical order in 2HFY11E). We have built in order inflows of Rs106 bn in FY2012E led by Rs16 bn from the BoP segment and Rs90 bn in the EPC space (implies 2X800 MW EPC order).

Key order inflow, execution and backlog estimates for BGR Energy's power division, March fiscal year-ends, 2008-12E (Rs mn)

	2008	2009	2010E	2011E	2012E
Order inflows	**24,290**	**80,000**	**32,650**	**81,000**	**106,000**
BoP orders	24,770	—	32,650	16,000	16,000
EPC orders	—	80,000	—	65,000	90,000
Execution	**9,210**	**18,660**	**28,760**	**44,225**	**58,390**
BoP orders	9,060	12,700	7,410	13,050	20,000
EPC orders	—	5,960	21,350	31,175	38,390
Closing backlog	**26,430**	**87,770**	**91,660**	**128,435**	**176,045**
BoP orders	26,870	14,170	39,410	42,360	38,360
EPC orders	—	74,040	52,690	86,515	138,125

Source: Company, Kotak Institutional Equities estimates

Existing backlog to drive FY2011E growth while likely new orders to boost FY2012E growth momentum

The management has guided for very strong revenue growth of about 60% yoy in FY2011E led by execution of the EPC projects and a pick-up in execution of the Marwa and Chandrapur BoP orders. The company expects to execute about 40% of the total order of the EPC projects in FY2011E, i.e., about Rs32 bn of revenue booking. We have currently built in a revenue growth of 52% in FY2011E. We expect the company to execute about 35-40% of the EPC orders in FY2011E. The Marwa and Chandrapur BoP projects are expected to contribute about Rs10-12 bn to FY2011E revenues. The management expects to maintain EBITDA margins at about 11-11.5% and PAT margin of about 6.5% in FY2011E as well.

The management expects to book revenues to the tune of about Rs65-70 bn in FY2012E. The FY2011E-end residual portion of the orders of the current backlog would contribute to about Rs50-52 bn of these revenues. However, in order to register a growth in FY2012E the company would have to win a few large orders in the EPC/BoP space. We expect the company to report power segment revenues of Rs44.2 bn in FY2011E and Rs61.6 bn in FY2012E. The strong revenues in FY2011E are led by execution of the existing EPC contracts. We expect the company to win at least one 2X660 MW EPC order in FY2011E (likely in the second half) which would lead to the strong revenue growth in FY2012E. We expect only marginal execution of the new order in FY2011E. Execution of new orders is expected to contribute to about 26% of total power segment revenues in FY2012E. We have built in margins of about 11% over FY2011-12E led by 12% margins in the BoP segment and 10.5% margins in the EPC segment.

Power segment order inflows, backlog and execution estimates, March fiscal year-ends, 2008-12E (Rs mn)

	2008	2009	2010E	2011E	2012E
Total power segment					
Execution	9,210	18,660	28,760	44,225	58,390
EBITDA	891	1,687	3,238	4,839	6,239
EBITDA margin (%)	9.7	9.0	11.3	10.9	10.7
Order inflows	24,290	80,000	32,650	81,000	106,000
Order backlog	26,430	87,770	91,660	128,435	176,045
BOP orders					
Order booking	**24,770**	**—**	**32,650**	**16,000**	**16,000**
Vijaywada					
Kakatiya					
Kaperkheda	9,980				
EPS Koanaseema	6,860				
Kothagudem, AP	7,930				
Chandrapur MAH			16,320		
Marwa			16,330		
New orders	NA	NA	NA	16,000	16,000
Order backlog	**26,870**	**14,170**	**39,410**	**42,360**	**38,360**
Vijaywada	1,200	—	—	—	—
Kakatiya	3,150	650	—	—	—
Kaperkheda	8,480	3,480	390	—	—
EPS Koanaseema	6,860	6,860	6,860	6,860	5,860
Kothagudem, AP	7,180	3,180	1,160	—	—
Chandrapur MAH	—	—	15,000	11,000	6,000
Marwa	—	—	16,000	10,000	4,000
New orders	NA	NA	NA	14,500	22,500
Execution details	**9,060**	**12,700**	**7,410**	**13,050**	**20,000**
Vijaywada	3,410	1,200	—	—	—
Kakatiya	3,400	2,500	650	—	—
Kaperkheda	1,500	5,000	3,090	390	—
EPS Koanaseema	—	—	—	—	1,000
Kothagudem, AP	750	4,000	2,020	1,160	—
Chandrapur MAH	—	—	1,320	4,000	5,000
Marwa	—	—	330	6,000	6,000
New orders	NA	NA	NA	1,500	8,000
EPC Projects					
Order booking		**80,000**	**—**	**65,000**	**90,000**
Mettur		31,000			
Kalisindh		49,000			
New orders		NA	NA	65,000	90,000
Order backlog		**74,040**	**52,690**	**86,515**	**138,125**
Mettur		29,450	18,470	6,070	—
Kalisindh		44,590	34,220	17,070	—
New orders		NA	NA	63,375	138,125
Execution		**5,960**	**21,350**	**31,175**	**38,390**
Mettur		1,550	10,980	12,400	6,070
Kalisindh		4,410	10,370	17,150	17,070
New orders		NA	NA	1,625	15,250

FY2012E revenue growth led by expected supercritical EPC order in 2HFY11E

Expect margins of ~11% in FY2011E-12E led by BoP margins of 12% and EPC margins of 10-10.5%

Expect average annual order inflows of about Rs16 bn from BoP segment

Expect the company to win atleast one 2X 660 MW order in FY2011E

26% of power segment revenues in FY2012E from execution of expected new order

Source: Company, Kotak Institutional Equities estimates

Hitachi JV to be finalized soon – builds long-term growth visibility

BGR Energy has entered into a technical collaboration with Hitachi for supercritical boilers (Hitachi Germany) and turbines (Hitachi Japan) and expects to convert this collaboration into a JV by end-July. The company has already identified land for the manufacturing facility (in Tamil Nadu) but needs to finalize the agreement before the land acquisition. We believe equipment ventures were a necessity for BGR Energy to establish long-term growth potential, as the BoP space gets more competitive and a lack of acceptability of Chinese equipment made it tougher to get EPC tenders like Mettur and Kalisindh with Chinese JVs.

While market place seems crowded, full-BTG and existing EPC understanding would provide an advantage

While the market place appears to be crowded, with several players such as L&T-Mitsubishi, Bharat Forge-Alstom and JSW-Toshiba also setting up equipment facilities, we believe that the company's capability to offer full BTG and its existing understanding of the EPC business provides it an advantage versus other competitors. The management believes that only BHEL and L&T would be the key competitors as only these companies have the capability to offer full-BTG/EPC. Most of the other new entrants are setting up product-specific facilities; for instance Thermax is entering only in the boiler space while Bharat Forge and JSW are entering only the turbine space.

We expect about 100-110 GW of additional capacity to be added in the XIIth plan period which implies an annual opportunity size of about 20 GW. Of this we expect BHEL to have a market share of about 50% which leaves only 10 GW of annual opportunity for the private players.

Prima-facie, power equipment manufacturing capacity may exceed the likely demand of about 18-20 GW p.a. over the next few years
Details of capacity addition by various players

	Structure	Capital investment	Boiler capacity (MW/ annum)	Turbine capacity (MW/ annum)	Likely start of manufacturing
L&T - Mitsubishi	51:49	30,000	4,000	4,000	Jun-10
BGR Energy - Hitachi	51:49	32,000	4,000	4,000	Jul-13
JSW - Toshiba	25:75	11,800	—	3,000	Jun-11
Bharat Forge - Alstom	49:51	24,000	—	5,000	Jun-11
Thermax - B&W PCG	51:49	7,000	3,000	—	NA
GB Engineering - Ansaldo(Gammon)	15:85		2,000	—	
Total capacity of new players			**13,000**	**16,000**	
BHEL current capacity			15,000	15,000	
BHEL - incremental capacity			5,000	5,000	
Total BHEL capacity			**20,000**	**20,000**	
Total supply capacity			**33,000**	**36,000**	

Source: Company, News flows, Kotak Institutional Equities

Would not require any equity raising for investment in the JV – not looking for any equity dilution in the near term

The company plans on setting up the equipment manufacturing facility in Tamil Nadu with an initial capacity of about 4,000 MW. The likely total investment requirement for the JV would be to the tune of about Rs32-35 bn of which the equity component would be about 30-35%, i.e., about Rs10-12 bn. Hence, BGR Energy's share in the equity requirement (51% stake in the JV) would be to the tune of about Rs5.5-6 bn over a 3-year period, which the company expects to meet through internal accruals itself. The company presently has free cash of about Rs4-5 bn in its books (total cash of about Rs10 bn of which Rs4.5 bn is margin money against bank guarantees). The management cited that the company is not looking towards any equity dilution in the near term. We have already built in the capital investment requirement for the equipment JV but have not assigned any value to the same in our target price.

Details of the JV formed between BGR Energy and Hitachi

Particulars	Details	
Likely finalization of JV	end - July 2010	
JV Partner	Boilers: Hiatchi, Germany	Turbine: Hiatchi, Japan
Scope of Business	Design, Engineering, manufacture, assembly, and sale of super critical Boilers and Steam Turbines and Generators, (BTG) Products	
Parties & their shareholding	**BGR Energy**	**Hitachi**
	51%	49%
Target manufacturing capacity	4,000 MW	
Est. Project Cost	About Rs32-35 bn	

Source: Company

Manufacturing facility likely to be completed in about 3 years – expect to achieve high level of indigenization in 5 years

The company expects to complete the equipment manufacturing facility in about 2-3 years for the boiler facility. Turbine facility would also take about 3 years and an additional 2 years would be required to achieve high level of indigenization. The boiler facility would be close to 100% indigenized in 5 years but certain turbine components such as rotors and blades would still have to be imported. Complete indigenization would take about 8-9 years.

Lower incumbent advantage in the supercritical space

Supercritical technology is as yet relatively new in India and hence any incumbent advantage that BHEL would have is relatively lower in that segment. Even BHEL would initially have a significant proportion of imports in the supercritical orders – has tied up with Alstom for supercritical boiler technology and Siemens for turbines. We believe that supercritical space is likely to contribute to a significant proportion (about 40-45%) of the total capacity addition in the XIIth plan. In the initial supercritical orders, most of the players (including BHEL, L&T BGR Energy) are likely to import a large component of the equipment for supply in the domestic market.

Furthermore, other changing dynamics of the power sector, such as increasing competition in the supply side and incremental role of private players in the demand side, further reduces incumbent advantages. BGR Energy's in-house capabilities in the BoP space for systems such as coal handling and civil components such as chimney, foundations, cooling tower etc. which the incumbent leader does not have, also provides it an advantage.

Focused on SEB orders so far; would need to scale up presence in private space

BGR Energy management cited that the company prefers state and central utility orders over private sector orders due to better levels of transparency and ease of payments. However, private sector is likely to incrementally have a significant role in the capacity addition in the XIIth plan and the company would need to increase its traction in this segment. The company's order book has been dominated by state sector orders so far and it still needs to demonstrate large orders from privates sector. The larger private players such as Lanco, Reliance, Tata Power etc. with in-house EPC capabilities are likely to only hand our individual package orders (for equipment and BoP) while the smaller players are likely to go through the complete EPC route. The company is presently evaluating opportunities in this space.

Company has managed execution, margins and working capital very well so far

Strong execution brings credibility to deliver large projects

BGR reported very strong 4QFY10 revenue of Rs16.6 bn, up 131% yoy, primarily led by strong execution of Mettur and Kalisindh projects. The company has already completed execution of about 40% of the Mettur project and 30% of the Kalisindh project. For the full year FY2010, the company reported revenue of Rs31 bn, up 60% yoy. Strong execution of EPC contracts, as demonstrated by BGR in 4QFY10, helps the company gain credibility in delivering large-sized EPC projects in the power sector in a timely and cost-efficient manner. We view this as a strong advantage as the company expands presence in large Indian power generation EPC market by (1) developing equipment manufacturing capabilities and (2) targeting more client segments besides just SEBs currently.

Highlights strong progress in all orders under execution

The company has handed over the Vijayawada project back to APGENCO. Kakatiya project has been completed and synchronization up to 500 MW has been successfully completed. The Kaperkheda project is in an advanced stage of completion and the management expects the project to be commissioned within this calendar year while the Kothagudem project is expected to be completed by end-4QFY11E. All other projects viz. Marwa, Chandarpur, Mettur and Kalisindh are running on schedule.

Margins in FY2010 likely aided by favourable commodity price movement; expect some margin contraction going forward

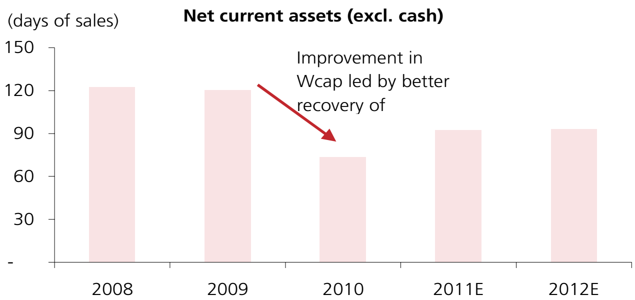
Despite high component of EPC execution in the FY2010 revenues, the company managed to report a 50 bps yoy margin expansion to 11.3%. However, we believe that these margins were aided by lower commodity prices (versus FY2008 levels when the company placed bids for the projects). We expect some margin contraction going forward and have built in margin decline to 10.7% in FY2012E.

Better working capital levels led by speedy recovery of receivables

BGR Energy reported a strong improvement in working capital levels to 74 days of sales at end-FY2010 versus 121 days of sales at end of FY2009. The strong improvement in working capital was primarily led by speedy recovery of receivables and higher creditor levels. We expect some deterioration in the working capital levels going forward with increasing proportion of large EPC orders in the backlog which have higher working capital requirements. We have built in working capital levels of about 95-100 days of sales going forward.

Better working capital levels led by speedy recovery of receivables; expect some deterioration going forward
Working capital level of BGR Energy, March fiscal year-ends, 2008-12E (days of sales)

	2008	2009	2010	2011E	2012E
Current assets	**250**	**371**	**325**	**303**	**298**
Total inventory	3	2	2	2	2
Sundry debtors	178	242	235	220	215
Loans & advances	66	122	86	80	80
Other current assets	2	4	2	1	1
Current liabilities & provisions	**127**	**250**	**252**	**211**	**205**
Creditors	75	84	130	115	110
Other liabilities	9	27	22	10	10
Advances from customers	34	127	72	70	70
Provisions	10	13	28	16	15
Net current assets (excl. cash)	**123**	**121**	**74**	**93**	**93**



Source: Company, Kotak Institutional Equities estimates

The company presently has a debt of about Rs9.3 bn (majority - Rs8.8 bn - working capital loans). The management expects the debt levels to increase to about Rs12-15 bn by end FY2011E. The company presently has about Rs10 bn of cash of which Rs5-6 bn is available free cash. The remaining Rs4.5 bn is held as margin money against bank guarantees and LCs of Rs70 bn comprised of (1) Rs50 bn of bank guarantee for performance guarantee (10% of the order value) and warranties and (2) Rs20 bn of LCs against the equipment imports.

Capability to handle 10-12 large BoP/EPC orders

The management cited that the company is capable of handling 10-12 large BoP and/or EPC orders. BGR presently has 6 projects under execution – 4 BoP and 2 EPC projects – of which 2 BoP projects are expected to be completed within this year.

Revise earnings estimates and target price to Rs800/share; reiterate BUY

We revise our estimates to Rs39.7 and Rs49.2 from Rs36.2 and Rs46.3 for FY2011E and FY2012E, respectively. The revision is based on higher execution estimates in FY2011E (expect stronger execution of current backlog) and FY2012E (expect a large EPC order inflow in 2HFY11E). We have revised our target price to Rs800/share from Rs700/share led by revision in earnings estimates and shift to 18X Sep-11E P/E multiple versus 17X earlier based on (1) strong execution, (2) strong balance sheet and ability to manage working capital levels and (3) strong visibility on Hitachi JV.

Revised estimates of BGR Energy, March fiscal year-ends ,2011-12E (Rs mn)

	New estimates		Old estimates		% change	
Target price (Rs)	**800**		**700**		**14.3**	
Rating	**BUY**		**BUY**			
	FY2011E	**FY2012E**	**FY2011E**	**FY2011E**	**FY2011E**	**FY2011E**
Revenues	46,715	60,903	42,888	56,044	8.9	8.7
EBITDA	5,211	6,613	4,755	6,066	9.6	9.0
EBITDA margin (%)	11.2	10.9	11.1	10.8		
PBT	4,308	5,340	3,927	5,019	9.7	6.4
PAT	2,859	3,544	2,606	3,331	9.7	6.4
EPS (Rs)	**39.7**	**49.2**	**36.2**	**46.3**	**9.7**	**6.4**
yoy growth (%)						
Revenues	51.8	30.4	39.3	30.7		
EBITDA	49.4	26.9	36.4	27.6		
EPS	41.9	24.0	29.3	27.8		

Source: Kotak Institutional Equities estimates

We reiterate our BUY rating on the stock based on (1) strong execution of large EPC orders, (2) high near-term visibility based on large order backlog, (3) potential to ramp up power generation earnings on the back of execution credibility, (4) stronger-than-expected balance sheet and working capital position, (5) strong visibility on Hitachi JV and (6) management confidence in near-term growth as well as order booking. We do not value the equipment foray as JV agreements are yet to be finalized and even after that, concerns would remain with regard to likely market positioning with several vendors jostling for space by then and potential dilution for raising resources for the same.

Key risks include (1) large investment requirement in equipment venture pressing earnings, (2) rising competition could adversely impact margins, (3) relatively concentrated customer base and (4) dependence on large projects—any delay/deferral in any of the projects could materially impact the earnings.

Consolidated financials of BGR Energy, March fiscal year-ends, 2005-12E (Rs mn)

	2005	2007	2008	2009	2010E	2011E	2012E
Income statement							
Operating income	**2,993**	**7,900**	**15,177**	**19,314**	**30,779**	**46,715**	**60,903**
Total operating expenses	(2,704)	(7,018)	(13,623)	(17,225)	(27,292)	(41,504)	(54,290)
EBITDA	**289**	**882**	**1,553**	**2,089**	**3,487**	**5,211**	**6,613**
Other income	(1)	3	52	317	205	454	430
Interest expense	(61)	(180)	(254)	(579)	(538)	(1,091)	(1,400)
Depreciation	(32)	(89)	(55)	(75)	(103)	(266)	(303)
Pre-tax profit	**190**	**613**	**1,296**	**1,752**	**3,051**	**4,308**	**5,340**
Tax	(54)	(213)	(411)	(596)	(1,037)	(1,450)	(1,798)
Net profits	**135**	**400**	**885**	**1,156**	**2,015**	**2,858**	**3,543**
EPS (Rs)	**12.6**	**4.0**	**12.1**	**16.0**	**28.0**	**39.7**	**49.2**
Balance sheet							
Shareholders funds	**431**	**825**	**4,732**	**5,633**	**7,052**	**9,242**	**11,956**
Equity share capital	108	108	720	720	720	720	720
Reserves and surplus	323	717	4,012	4,913	6,332	8,522	11,236
Loan funds	**562**	**889**	**2,464**	**5,027**	**7,090**	**9,326**	**13,500**
Secured	505	831	2,405	4,992	6,360	8,826	13,000
Unsecured	57	58	59	35	730	500	500
Total sources of funds	**1,323**	**3,304**	**10,141**	**13,498**	**17,957**	**24,341**	**29,101**
Net fixed assets	**336**	**414**	**538**	**1,031**	**1,605**	**2,488**	**3,285**
Investments	1	3	1,514	5	5	1,505	3,505
Net current assets (excl. cash)	**801**	**1,958**	**5,019**	**6,310**	**6,171**	**11,859**	**15,533**
Cash	185	929	3,070	6,152	10,175	8,489	6,777
Total application of funds	**1,323**	**3,304**	**10,141**	**13,498**	**17,957**	**24,341**	**29,101**
Free cash flow							
Net profit before tax and extraordinary items	190	613	1,296	1,752	3,051	4,308	5,340
Add: Depreciation / amortisation / non-cash prov	30	132	2,645	75	103	266	303
Tax paid	(54)	(213)	(148)	(205)	(1,037)	(1,428)	(1,751)
Operating profit before Wcap. changes	**165**	**531**	**3,793**	**1,622**	**2,117**	**3,146**	**3,892**
Change in working capital / other adjustments	(392)	(1,157)	(3,060)	(1,292)	140	(5,689)	(3,674)
Net cashflow from operating activites	**(226)**	**(626)**	**732**	**330**	**2,257**	**(2,543)**	**218**
Fixed Assets	(121)	(167)	(179)	(568)	(677)	(1,148)	(1,100)
Investments	—	(2)	(1,511)	1,509	(0)	(1,500)	(2,000)
Cash (used) / realised in investing activities	**(121)**	**(169)**	**(1,691)**	**941**	**(677)**	**(2,648)**	**(3,100)**
Free cash flow	**(347)**	**(795)**	**(958)**	**1,271**	**1,580**	**(5,191)**	**(2,882)**
Ratios							
EBITDA margin (%)	9.7	11.2	10.2	10.8	11.3	11.2	10.9
Net debt/equity	0.9	(0.0)	(0.1)	(0.2)	(0.4)	0.1	0.6
RoAE (%)	35.9	42.4	21.2	22.3	31.8	35.1	33.4
RoACE (%)	16.2	14.9	10.5	13.0	15.1	16.9	16.7

Source: Company, Kotak Institutional Equities estimates

Target price implies WACC of 12.5% and moderate growth assumptions

Our target price of Rs800/share for BGR Energy implies (1) WACC of 12.5%, (2) terminal growth rate of 5%, (3) moderate growth in revenue of about 12.5% from FY2016-21E and (4) relatively flat EBITDA margins of about 10.5% over FY2013-21E.

Implied DCF valuation of BGR Energy, March fiscal year-ends, 2010-21E (Rs mn)

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Revenues	**30,779**	**46,715**	**60,903**	**73,555**	**93,280**	**116,310**	**133,757**	**153,820**	**176,893**	**194,582**	**214,041**	**235,445**
Revenue growth (%)	59.4	51.8	30.4	20.8	26.8	24.7	15.0	15.0	15.0	10.0	10.0	10.0
EBITDA	**3,487**	**5,211**	**6,613**	**7,840**	**9,685**	**12,157**	**14,044**	**16,151**	**18,574**	**20,431**	**22,474**	**24,722**
EBITDA margin (%)	11.3	11.2	10.9	10.7	10.4	10.5	10.5	10.5	10.5	10.5	10.5	10.5
Depreciation	(103)	(266)	(303)	(384)	(468)	(556)	(661)	(760)	(866)	(979)	(1,101)	(1,233)
EBIT	3,384	4,945	6,310	7,456	9,217	11,600	13,384	15,391	17,708	19,452	21,373	23,489
Tax	(1,150)	(1,645)	(2,081)	(2,459)	(3,045)	(3,840)	(4,431)	(5,095)	(5,862)	(6,440)	(7,075)	(7,776)
Change in net WCap.	140	(5,689)	(3,674)	(3,439)	(5,174)	(5,784)	(3,824)	(4,397)	(5,057)	(3,877)	(4,265)	(4,691)
Capex	(677)	(1,148)	(1,100)	(1,200)	(1,310)	(1,431)	(1,574)	(1,732)	(1,905)	(2,095)	(2,305)	(2,535)
Free cash flow	**1,800**	**(3,271)**	**(242)**	**742**	**157**	**1,101**	**4,216**	**4,927**	**5,750**	**8,019**	**8,829**	**9,720**
PV of free cash flow	1,800	(3,271)	(215)	586	110	688	2,339	2,430	2,521	3,126	3,059	2,993

PV of cash flows	16,166
PV of terminal value	41,903
EV	58,070
Debt	982
Equity value	57,088
Shares o/s (mn)	72
Equity value (Rs)	793

FCF in terminal year (Rs mn)	9,720
Exit FCF multiple: (1+g)/(WACC-g)	14.0
Terminal value of FCF (Rs mn)	136,073
Exit EBITDA multiple	5.5
WACC (%)	**12.5**

Source: Kotak Institutional Equities estimates

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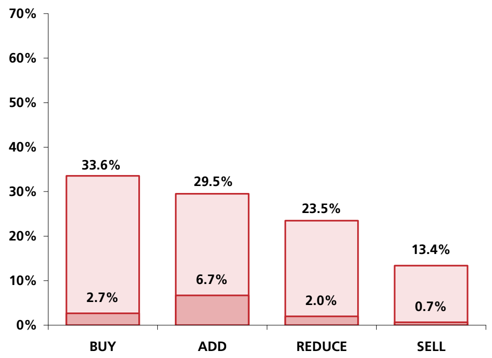
Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



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Source: Kotak Institutional Equities

As of March 31, 2010

Ratings and other definitions/identifiers

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ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.

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