

**BUY**

CMP	318
Price Target	446
Upside (%)	40
Sensex	16785.64
Nifty	5049.95
	21-10-2011

Stock Details

Industry	Engineering-Turnkey Services
Market Cap (₹ Mn)	23164
O/S Shares (Mn)	72
Free Float (Mn)	14
52 Week H/L	827/296
Avg. 1 mth Vol.	136381 Face
Value (₹)	10
Bloomberg	BGRL IN
Reuters	BGRE.BO
BSE Code	532930

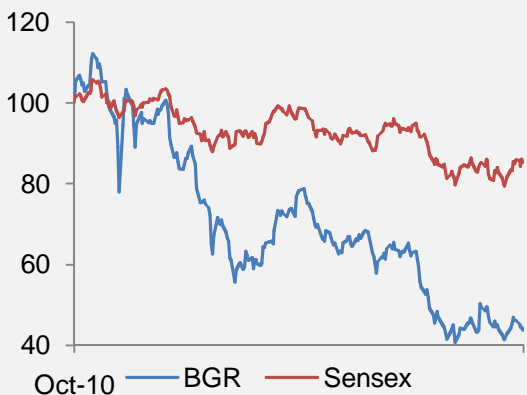
Shareholding Pattern (%)

	<u>Jun'11</u>	<u>Mar'11</u>	<u>Dec' 10</u>
Promoters	81.13	81.13	81.15
Institution	3.17	2.39	5.21
Corp Bodies	1.67	1.96	0.93
Public	14.03	14.52	12.71

Source: BSE

Price Performance (%)

	<u>1M</u>	<u>3M</u>	<u>6M</u>	<u>12M</u>
Absolute	(11)	(30)	(44)	(57)
Rel. to Sensex	(10)	(20)	(30)	(41)



Alok Bhandari
Alok.bhandari@cniGlobalbiz.com
+91 22 2838 3889

- Strong order book of ₹ 75bn as on 30th June 2011.
- BGRL will spend ₹ 44bn over 3.5 years to set up a boiler and turbine manufacturing facility with supercritical capabilities of up to 1,000 MW through a JV with Hitachi.
- Turnkey contract from Nuclear Power Corporation of India (NPCIL) worth ₹ 4.44bn.
- BGRL Energy to tie up with German company for solar entry.
- BGR Energy won the best bidder in the tender floated by NTPC for the supply of turbine-generators for its nine supercritical thermal power projects. The value of the order is estimated to be around ₹ 36bn.
- We initiate with a BUY rating on stock with a TP of ₹ 446; with an upside of 40 % from CMP.

BGRL will spend ₹ 44bn to set up manufacturing facility

BGR Energy Systems is setting up two manufacturing facilities in Tamil Nadu for making super-critical steam turbine and generator segment with a capital investment of ₹ 44bn. Out of the ₹ 44bn investment planned, ₹ 30bn will go into turbines facility and ₹ 14bn will be spent on boilers unit.

BGR won the best bidder for the NTPC

A joint venture of BGR Energy and Hitachi has won orders worth ₹ 3,600 Cr from NTPC Ltd for the supply of super-critical steam turbine and generators has led the Chennai-based company to emerge as the winner for supplying nine units of steam turbines. The company will take only five units.

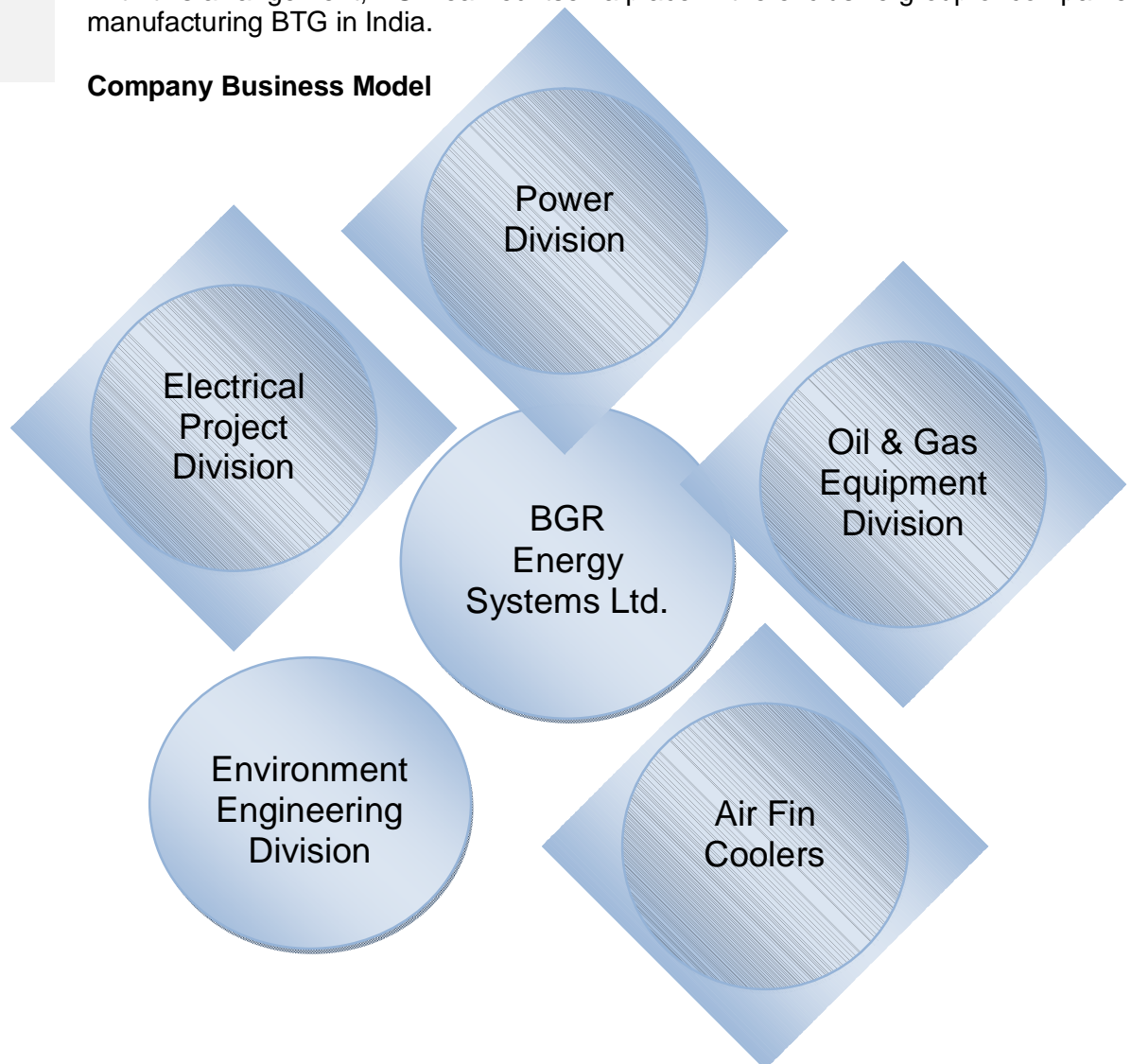
Financial Highlights (₹ Cr)

Year	FY09	FY10	FY11	FY12E	FY13E
Net Sales	1930.32	3073.39	4749.82	5129.58	5745.38
EBITDA	274.41	417.83	608.54	661.78	710.89
PBT	175.15	305.12	480.76	519.49	551.26
RPAT	115.57	201.46	323.04	346.00	360.42
EPS	15.54	26.79	43.10	46.29	48.28
BVPS	78.32	98.09	131.93	168.22	206.50
PE Ratio	20.65	11.98	7.45	6.94	6.65
ROE (%)	22.28	31.72	38.96	31.95	26.66
EV/EBITDA	8.76	5.31	4.29	3.93	3.75
P/BVPS	4.10	3.27	2.43	1.91	1.55

About Company

BGR was incorporated in 1985 as a joint venture between GEA Energietechnik (Germany) and Mr. B.G. Raghupathy, promoter. Initially, the company manufactured products essentially used in thermal and nuclear power plants such as on line condenser tube cleaning systems, debris filters, and rubber cleaning balls. In 1993, the promoter and his family bought GEA Energietechnik's stake and became the sole shareholder of the company. In 1993, the company expanded its range of products and services to the power and oil & gas industries. Currently, it manufactures and supplies equipment and also undertakes turnkey engineering project contracting. In the equipment segment, the company manufactures equipment for power, oil & gas, refinery, petrochemical, and process industries. In the turnkey engineering project contracting business, BGR executes projects in the power and oil & gas sectors, wherein it undertakes turnkey responsibility to supply a range of equipment and services, including civil and other works. In April 2010, BGR and Hitachi agreed to set up two JVs to manufacture supercritical boilers and turbine-generators (TG) with Hitachi Germany and Hitachi Japan, respectively, with capacity of 4,000 MW each. With this arrangement, BGR earned itself a place in the exclusive group of companies manufacturing BTG in India.

Company Business Model



Power Projects Division:

It provides turnkey EPC (Engineering, Procurement and Construction) and BoP (Balance of Plant) services for coal-based Thermal Power Plants and Gas-based Combined Cycle Power Plants typically over 100MW.

Oil and Gas Equipment Division:

It designs and produce gas conditioning & metering skids, storage tanks, pipeline pig launching & receiving systems, gas processing complexes and gas compressor packages related to the oil and gas industry for companies in India and abroad.

Air Fin Cooler Division:

It designs and manufactures Air Fin Coolers which cool process fluids and gases used in the refining, petrochemical, and oil and gas industries, and which began operating in 1994.

Environment Engineering Division:

It designs, manufactures and provides Deaerators, Desalination plants, Water treatment plants and Effluent treatment plants, which have application in Power and Process plants and other Industrial plants, and which began operating in 1996.

Electrical Projects Division (EPD):

It designs and supplies Electrical Systems and equipment such as Gas Insulated Switchgear (GIS) substations, Optical Fiber Power Ground Wires (OPGW), Extra High Voltage substations and Transmission Lines to Power Stations, Refineries and Petrochemical plants, and which began operating in 2003.

Subsidiaries**Progen Systems & Technologies Ltd.**

BGR Energy's subsidiary, Progen Systems & Technologies Ltd., has the capability to design and manufacture process equipments, such as heat exchangers, pressure vessels, reactors, columns, surface condensers, HP/LP heaters and boiler components. Progen owns a state of the art welding facility for manufacturing high frequency resistance welded finned tubes used in Heat Recovery Systems associated with Furnaces for Petrochemicals applications, and with Boilers for Power.

Additionally, Cuddalore Powergen Corporation, owned by the promoter of BGR Energy, is developing a 2 x 660 MW coal-based power project. The company was incorporated in November 1993 and signed a power purchase agreement (PPA) with TNEB in September 2006. Moreover, the promoter company, BGR Energy Systems Ltd., has signed MoU with the Orissa government for setting up a 1320 MW (2x660) project at Bhapur, Orissa. However, the projects have not made much progress and there is still no clarity regarding their funding.

Quarter-wise summary (` Cr)

Year	Q1FY12	Q1FY11	Y-o-Y	Q4FY11	Q-o-Q
Net Sales	731.2	905.4	-19.2	1457.3	-49.8
Other Operating Income	3.0	3.9	-22.9	6.1	-50.9
Total Income	734.2	909.3	-19.3	1463.4	-49.8
Raw Material	575.9	736.0	-21.8	1238.8	-53.5
Employ Cost	34.1	32.6	4.5	35.4	-3.6
Other Expenses	28.2	34.4	-18.1	20.2	39.7
Total Expenditure	638.1	802.9	-20.5	1294.3	-50.7
EBITDA	96.1	106.4	-9.7	169.1	-43.2
<i>% of sales</i>	<i>13.1</i>	<i>11.8</i>	<i>11.8</i>	<i>11.6</i>	<i>13.2</i>
Depreciation	3.7	3.1	20.6	7.0	-46.8
EBIT	92.3	103.3	-10.6	162.1	-43.0
Interest	18.0	11.6	55.3	18.3	-1.5
PBT	74.3	91.7	-18.9	143.8	-48.3
Tax	24.1	31.2	-22.7	45.4	-47.0
<i>Tax Rate (%)</i>	<i>32.4</i>	<i>34.0</i>	<i>-4.7</i>	<i>31.6</i>	<i>2.5</i>
RPAT	50.2	60.5	-17.0	98.3	-48.9
<i>% of sales</i>	<i>6.9</i>	<i>6.7</i>	<i>2.8</i>	<i>6.7</i>	<i>1.8</i>
EPS (Unit Curr.)	7.0	8.4	-17.2	13.6	-48.9

Valuation

At CMP of ` 318, share is trading at 2.41x P/BV FY11 BV, 1.89x P/BV FY12E BV and 1.54x P/BV FY13E BV. At CMP, share is available at 4.25x FY11 EV/EBITDA, 3.90x FY12E EV/EBITDA and 3.72x FY13E EV/EBITDA. At CMP of ` 318, share is trading at 7.45x FY11 EPS, 6.94x FY12E EPS and 6.65 FY13E EPS. At our target of ` 446, share is available at 10.35x FY11 EPS, 9.64x FY12E EPS and 9.24x FY13E EPS.

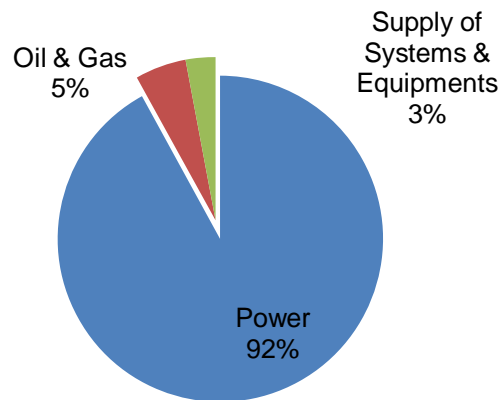
For valuation purpose we have considered the FCFE assuming WACC is 10.61% and terminal growth is 2.0%. The total valuation of Firm is ` 35112.61 Mn and FY12E total expected outstanding debt is ` 14710.63 Mn so Fair valuation of equity is ` 32241.08 Mn and total no. of outstanding share is 72 Mn. Each share Fair valuation comes to ` 446 which is 40% upside from its current level in a medium period. At our target price of ` 446, share is available at 10.34x FY11 EPS, 9.64x FY12E EPS and 9.24x FY13E EPS. At CMP of ` 318 we initiate our coverage on stock with 'BUY' rating for a medium term investment horizon with a target of ` 446 which is an upside of 40% from CMP. We strongly recommend buy.

Investment Rationale

Strong Order Book

The total order backlog as on 30th June 2011 stands at ` 75 Bn, however the fresh order intake during FY11 remained subdued by 22% at ` 30 Bn. Commenting on the muted order intake in FY11, company had bid for projects worth ` 180 Bn, which was not materialized in the year gone. We expect the entire order inflow in FY12 to reach at ` 130 Bn which includes BoP, BTG and EPC contracts during the current financial year.

BGR has already placed its offering for projects worth ` 180 Bn in FY2011, constituting Rajasthan tender of ` 61 Bn; NTPC order of ` 60 Bn; Ennore order of ` 30 Bn and ` 30 Bn order from Surat. These orders are expected to be finalized in Q2FY12. Apart from these orders, the company has identified projects worth ` 400 Bn which it intends to compete during the current financial year.



BGRL will spend ` 44 Bn to set up a boiler and turbine manufacturing facility

BGR Energy Systems, which is making its entry into super-critical steam turbine and generator segment, is setting up two manufacturing facilities in Tamil Nadu with a capital investment of ` 44 Bn. The company, which has bagged a ` 36 Bn NTPC order for supply of super-critical steam turbine and generator, is partnering with Hitachi, Japan for super-critical steam turbines and Hitachi Power Europe, Germany for super-critical boilers. The manufacturing facilities being created in Tamil Nadu will be the global manufacturing centre for Hitachi, Japan.

Company would be able to roll out the products from the production facilities by January 2013 as the company intends to start construction activities by January 2012. Out of the ` 44 Bn investments planned, ` 30 Bn will go into turbines facility and ` 14bn will be spent on boilers' unit. The company will be in a position to fulfill the NTPC contract requirements from this manufacturing plant.

Turnkey contract from Nuclear Power Corporation of India (NPCIL)

BGR Energy Systems has secured a turnkey contract from Nuclear Power Corporation of India (NPCIL) for supply of main plant electricals at two of its upcoming nuclear power plants in Rajasthan and Gujarat. The contract is valued at ₹ 4.44 Bn. The scope of the contract includes supply, erection, testing and commissioning of main plant electrical systems including nuclear island electrical at Kota, Rajasthan (2 x 700 MW) and Kakrapara, Gujarat (2 x 700 MW) and the same will be completed between September, 2015 and March, 2016.

BGRL tie up with German Company for Solar

BGR Energy is close to finalizing a deal for getting into the solar power industry, with Flagsol GmbH, a subsidiary of Solar Millennium of Germany. The Indian partner will hold 60 per cent stake in the joint venture that would be created. For starters, the joint venture is looking at setting up a 50-MW concentrated solar power (CSP) plant in Rajasthan. The plant of that size would call for an investment of about ₹ 6.5bn.

EPC project under execution

EPC generally refers to BTG package combined with substation instruments. BGR energy glided up the value chain, from a BoP to EPC player, by gaining execution capabilities to service EPC contracts. This advancement bore fruit in the form of two large scale EPC contracts with combined value of ₹ 80 Bn. TNEB, Mettur, 1x600 MW thermal Power plant – BGR secured this EPC order from Tamilnadu State Electricity Board in June, 2008, the order was valued at ₹ 31 Bn and was to be executed over 39 months. The scope of this EPC contract included BTG equipments, 220 & 400 KV gas insulated substation, river water intake pump house and pipe bridge across the river. Apart from BTG, which was ordered from Dongfang, China; rest all parts of this contract were procured in house. RRVUNL, Kalisindh (Jhalawar), 2x600 MW TPP- BGR won this EPC order from Rajasthan SEB in Jul, 2008, the order valued at ₹ 41 Bn was to be executed over a period of 42 months.

BoP Business; Savior during harsh times

Among large number of vendors that cater to each of the specific sub-parts of BoP, BGR is one among the very few who can undertake complete turnkey solutions. The company got its first BoP order for a 95 MW CCPP plant back in year 2000, in collaboration with Crane Environment Inc. USA. There after BGR has executed BoP turnkey contracts for smaller power projects as well as for 300MW and 500MW unit sizes also. In 2005 BGR secured its first large, 500MW, BoP order after that it graduated to 660 MW unit size project with order worth ₹ 21.7 Bn from Gayatri & Semb and corp JV.

The Krishnapattam order from Gayatri Projects & Sembawang Corp. JV is considered to be a breakthrough as it is the first IPP order won by BGR, rest all before were government orders. This cemented management's view of bagging private IPP BoP orders for whom the BTG has been ordered from Chinese companies.

Power generation EPC: Huge growth in current market

We believe, in the Eleventh Plan alone, India is expected to add ~50-55 GW generation capacity, which is more than what was added in the past fifteen years. This target is achievable, as most of the capacity is under construction in various stages. Further, with government expected to add 100 GW of capacity in the Twelfth Plan, which implies doubling of India's power generation capacity from the present. BGR has expertise to cater to EPC and BoP segments of power plants, which implies a substantial increase in the potential addressable market over the Eleventh Plan period. Further, due to lack of pre-qualified and experienced EPC players, the company's market share is also likely to increase, lending additional visibility to revenue growth over the long term.

NTPC the Big Order worth ` 36 Bn

A joint venture of BGR Energy and Hitachi has won orders worth 3,600 crore from NTPC Ltd for the supply of super-critical steam turbine and generators has led the Chennai-based company to emerge as the winner for supplying nine units of steam turbines. The company will take only five units. BGR has emerged as the lowest bidder for all nine units of super-critical steam turbine generators. NTPC had invited bids for bulk supply of boilers and turbine generators for four projects --in Karnataka, Orissa and Chhattisgarh --with a total capacity of 7,200 megawatts. The others who were qualified to bid include L&T Mitsubishi, Bharat Forge-Alstom and Toshiba. The value of the five units of these turbines by BGR is estimated to be around ` 36 Bn. Company is interested in taking up the 2x800 MW Gajmara Super Thermal Power project, Orissa, and 3x800 MW Kudgi Super Thermal Power Project at Karnataka. The commissioning of the first turbine will be done in 42 months. The next will take two months thereafter. BGR Energy is setting up a ` 44 Bn super-critical steam turbine factory with Germany's Hitachi Power Europe GmbH and Japan's Hitachi Ltd. The turbines for the NTPC contract will be supplied from a mix of imports from Hitachi. The total capacity of the plant is 5000 MW.

Power Projects Completed and Under Execution Track Record

Client	Project	Value (Bn)	Capacity	Status	Completion	% Complete
EPC Projects						
Aban Power	Karuppur CCPP, TN	2.7	1x120 mw	Completed	FY06	100
TNEB	Valathur CCPP, (Phase 2), TN	3.5	1x92.9 mw	Completed	FY09	100
MALCO	Mettur TPP	0.8	1x25 mw	Completed	FY09	100
RRVUNL	Kalisindh TPP, Jalawar, Rajasthan	49.0	2x600 mw	Under Execution	FY12E	70
TNEB	Mettur TPP, TN	31.0	1x600 mw	Under Execution	FY12E	80
BOP Projects						
Grasim	Chittorgarh TPP, Rajasthan	0.4	1x23 mw	Completed	FY03	100
TNEB	Valathur CCPP, (Phase 1), TN	0.6	1x95 mw	Completed	FY03	100
RRVUNL	Dholpur CCPP, Rajasthan	2.1	1x330 mw	Completed	FY08	100
APGENCO	Vijaywada TPP, AP	5.8	1x500 mw	Completed	FY10	100
APGENCO	Kakatiya TPP, AP	6.9	1x500 mw	Completed	FY11	100
MAHAGENCO	Khaperkheda TPP, Maharashtra	10	1x500 mw	Completed	FY11	100
APGENCO	Kothagudem TPP, AP	7.9	1x500 mw	Completed	FY11	90
MAHAGENCO	Chandrapur TPP, Maharashtra	16.3	2x500 mw	Under Execution	FY13E	40
CSPGCL	Marwa TPP, Chhattisgarh	16.3	2x500 mw	Under Execution	FY13E	20
Thermal Powertech	Krishnapatnam TPP, AP	21.7	2x660 mw	Under Execution	FY13E	0

Industry Overview

The growth rates of EPC and balance of plant (BoP) industries are closely linked to the capacity addition in the power sector. Power continues to be an integral part of the national capex and has a strong historical correlation with India's GDP (which is ~8% of the total GDP). We expect 55-58GW of power capacity addition in the 11th Plan compared to the planned capacity of 78.7GW.

Capacity addition for 12th Plan

In the 12th Plan, the government intends to add another 105GW of power. However, we expect 75GW of actual addition based on previous track records and the current scenario. Of this, 60GW will be from thermal power stations and 15GW will be from nuclear, hydro, wind and biomass.

For the 12th Plan, the capacity addition is expected to grow by a CAGR of 5.89%, while consumption is expected to grow by a CAGR of 8.3% on an overall basis. Commercial demand for power is expected to grow by a CAGR of 9.5% followed by residential demand, which is expected to grow by a CAGR of 9.25%. Agricultural demand is expected to grow by a CAGR of 4%. Incremental demand from multiple segments of Indian demand will continue to support capacity addition.

We believe increase in interest rates is expected to peak by the end of CY12. Issues related to environment clearances for large infrastructural projects will also be sorted once policy issues are finalized. The process of mine allocation, which is currently under evaluation, cannot be delayed for long period. Hence, we believe order backlogs of the major EPC and BoP companies are expected to witness healthy order inflows.

~ 1.4 Trillion BOP opportunities in the 12th Plan

According to CEA, the 11th Plan offered ~ 910bn opportunities for the BoP companies in the country. In the 12th Plan, we expect ~ 1.4trn opportunities for BoP services across 1,100 project locations. Power related EPC and BoP have strong entry barriers as major power generators have strict vendor selection criteria. Hence, major competition to the existing players in the near-term is ruled out. Major players have a proven track record of profitable project execution. Hence, the probability of price war to bag orders is ruled out.

The finalisation of BTG packages by NTPC for the super critical plants of 660MW is also expected in CY2011 after significant delays, which would result in floating tenders for the BoP aspect of these plants. NTPC's BoP tenders of super critical power plants can be considered as a strong trigger for the power ancillary industry in the near-term. Following table emphasis on the BoP orders placed in the 11th Plan and tentative BoP requirement in the 12th Plan.

BOP Ordering Details of 11th Plan

Order Details	Total Needed	Order Placed
Coal Handling Plant	51	51
Ash Handling Plant	52	51
Demineralised Water Plant	52	49
Cooling Tower	99	98
Chimney / Stack	75	75
Fuel Oil System	52	50
Water Treatment Plant	55	53
Total	436	427

BOP Requirement in the 12th Plan

Order Details	Total Requirement Nos.
Coal Handling Plant	148
Ash Handling Plant	148
Demineralised Water Plant	211
Cooling Tower	218
Chimney / Stack	77
Fuel Oil System	148
Water Treatment Plant	160
Total	1110

All India Region-wise Generating Installed Capacity (MW)

Region	Thermal				Nuclear	Hydro	R.E.S	Total
	Coal	Gas	DSL	Total				
Northern	24482.50	4171.26	12.99	28666.75	1620.00	14922.75	3509.56	48719.10
Western	33105.50	7903.81	17.48	41026.79	1840.00	7447.50	5937.60	56251.90
Southern	20982.50	4690.78	939.32	26612.60	1320.00	11338.03	10129.00	49399.60
Eastern	21122.88	190.00	17.20	21330.08	0.00	3882.12	356.42	25568.60
N.Eastern	60.00	787.00	142.74	989.74	0.00	1116.00	223.60	2329.34
Islands	0.00	0.00	70.02	70.02	0.00	0.00	6.10	76.12
All India	99753.38	17742.9	1199.75	118695.98	4780.00	38706.40	20162.20	182345.00

Profit and Loss A/C (` Cr)

Year	FY09	FY10	FY11	FY12E	FY13E
Net Sales	1930.32	3073.39	4749.82	5129.58	5745.38
Other Income	31.71	25.00	22.27	25.61	30.73
Total Income	1963.09	3095.88	4777.18	5163.19	5788.12
Raw Material Cost	1353.30	2184.44	3450.78	3650.69	4088.77
Power & Fuel Cost	3.04	4.40	5.31	5.14	5.76
Employee Cost	74.38	126.19	144.68	166.38	204.65
Other Mfg Exp.	185.90	241.45	414.86	462.76	518.29
Selling and Admin. Exp.	51.09	53.63	56.31	102.84	115.18
Misc. Expenses	20.97	67.94	96.70	111.21	139.01
Total Expenditure	1688.68	2678.05	4168.64	4499.02	5071.66
EBITDA	274.41	417.83	608.54	661.78	710.89
<i>% of Sales</i>	<i>14.22</i>	<i>13.60</i>	<i>12.81</i>	<i>12.90</i>	<i>12.37</i>
Growth (%)	53.96	52.26	45.64	8.75	7.42
Depreciation	7.50	10.28	17.30	20.76	25.95
EBIT	266.91	407.55	591.24	641.02	684.94
Interest	91.76	102.43	110.48	121.53	133.68
PBT	175.15	305.12	480.76	519.49	551.26
Tax	59.58	103.66	157.72	173.49	190.84
<i>Tax Rate (%)</i>	<i>34.02</i>	<i>33.97</i>	<i>32.81</i>	<i>33.40</i>	<i>34.62</i>
RPAT	115.57	201.46	323.04	346.00	360.42
EPS	15.54	26.79	43.10	46.29	48.28
CEPS	17.09	29.41	47.16	50.83	53.54
BVPS	78.32	98.09	131.93	168.22	206.50

Balance Sheet (` Cr)

Year	FY09	FY10	FY11	FY12E	FY13E
Share Capital	72.00	72.00	72.16	72.16	72.16
Reserves Total	491.90	634.26	879.85	1141.69	1417.94
Net Worth	563.90	706.26	952.01	1213.85	1490.10
Total Debt	709.00	807.46	1337.33	1471.06	1647.59
Sources of Funds	1275.70	1516.65	2341.21	2736.78	3189.57
Net Block	98.31	146.06	198.45	253.11	341.55
Capital Work in Progress	5.42	10.36	86.19	103.43	124.11
Investments	0.53	0.53	0.53	0.53	0.53
Inventories	13.97	16.18	41.07	51.42	57.59
Sundry Debtors	1278.85	1980.26	3157.97	3033.67	3397.71
Cash and Bank	615.15	901.86	1044.88	1183.91	1296.34
Loans and Advances	661.04	745.47	871.58	958.74	1073.79
Current Liabilities	1232.56	1895.51	2397.08	2157.37	2373.11
Provisions	90.28	233.39	354.53	382.89	421.18
Net Current Assets	1246.17	1514.87	2363.89	2687.47	3031.14
Net Deferred Tax	-74.71	-155.06	-307.76	-307.76	-307.76
Application of Funds	1275.70	1516.65	2341.21	2736.78	3189.57

Ratio Analysis

Profitability Ratio

Year	FY09	FY10	FY11	FY12E	FY13E
EBITDA M (%)	14.22	13.60	12.81	12.90	12.37
EBIT M (%)	13.83	13.26	12.45	12.50	11.92
PAT M (%)	5.99	6.55	6.80	6.75	6.27
ROE (%)	22.28	31.72	38.96	31.95	26.66
ROCE (%)	21.95	27.52	30.39	25.03	22.91

Liquidity Ratio

Year	FY09	FY10	FY11	FY12E	FY13E
Receivable (days)	190.49	193.53	197.42	220.29	204.29
Inventory (days)	2.74	1.79	2.20	3.29	3.46
Current Ratio	1.94	1.71	1.86	2.06	2.08
Quick Ratio	1.93	1.70	1.84	2.04	2.06

Turnover Ratio

Year	FY09	FY10	FY11	FY12E	FY13E
Gross Assets Turnover	19.40	19.98	21.89	17.74	14.96
Total Assets Turnover	1.71	2.20	2.46	2.02	1.94
Interest Coverage ratio	2.91	3.98	5.35	5.27	5.12
Adjusted D/E	1.26	1.14	1.40	1.21	1.11

Valuation Ratio

Year	FY09	FY10	FY11	FY12E	FY13E
EV/Sales	1.23	0.71	0.54	0.50	0.46
EV/EBITDA	8.68	5.25	4.25	3.90	3.72
PE	20.46	11.87	7.38	6.87	6.59
P/BVPS	4.06	3.24	2.41	1.89	1.53

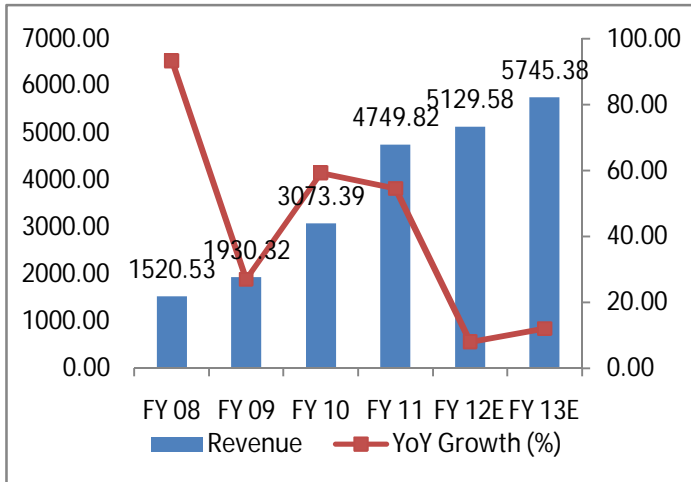
DuPont Analysis

Year	FY09	FY10	FY11	FY12E	FY13E
Tax Burden	0.66	0.66	0.67	0.67	0.65
Interest Burden	0.66	0.75	0.81	0.81	0.80
EBIT M (%)	0.14	0.13	0.12	0.12	0.12
Assets T/O	1.71	2.20	2.46	2.02	1.94
Financial Leverage	2.17	2.20	2.33	2.34	2.19
ROE (%)	22.28	31.72	38.96	31.95	26.66

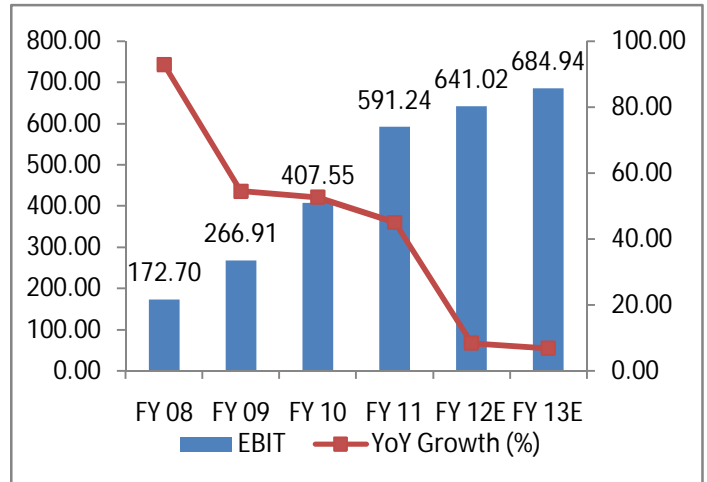
Valuation Matrix

Year	FY09	FY10	FY11	FY12E	FY13E
PE @ CMP	20.46	11.87	7.38	6.87	6.59
PE @ Target Price	28.70	16.65	10.35	9.64	9.24
EV/EBITDA @ CMP	8.69	5.25	4.25	3.90	3.72
P/Sales @ CMP	0.17	0.10	0.07	0.06	0.06
Sales/PS	268.10	426.86	658.23	710.86	796.20

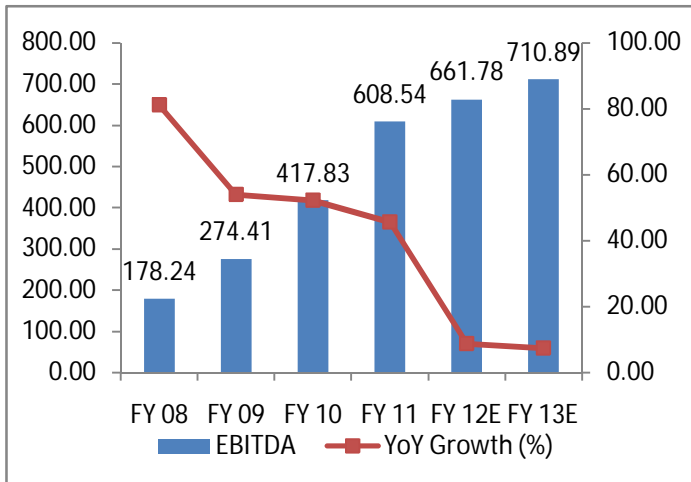
Revenue and its Growth (%)



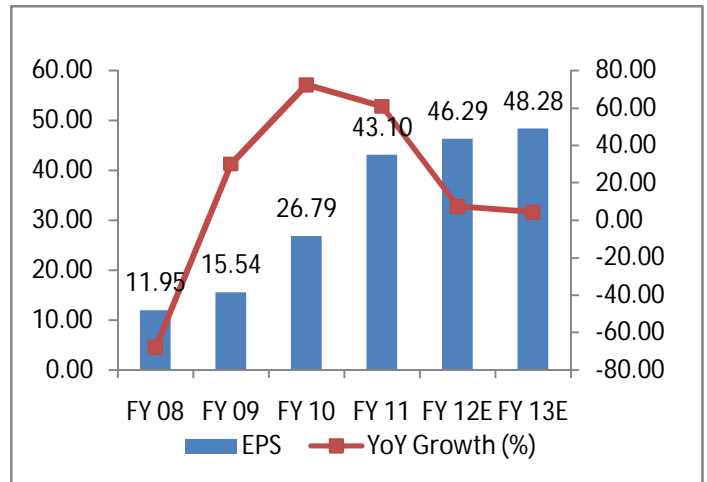
EBIT and its Growth (%)



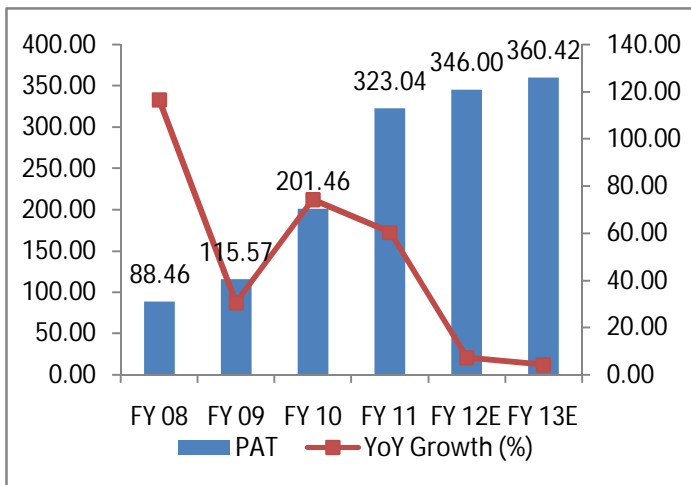
EBITDA and its Growth (%)



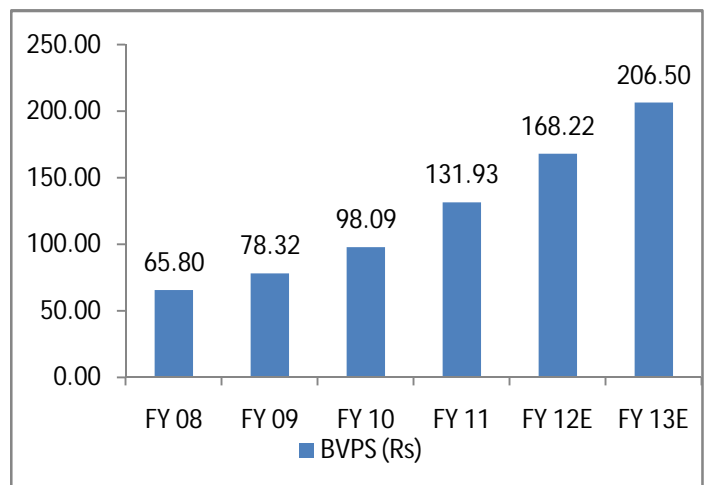
EPS and its Growth (%)



PAT and its Growth (%)



BVPS



Investment Concerns

- BGR's business model has high working capital requirement. Significant amount of working capital is required to purchase materials, contract initiation costs, and for engineering, construction and other work on projects before progress payments are received from clients. High working capital negatively impacts the company's return ratios and cash flows. Consequently, to meet working capital requirement the company could go for dilution or higher debt in the long term.
- Power sector in India is currently facing severe regulatory bottlenecks relating to absence of coal linkages, delay in receiving land/forest/environment clearances and insufficient debt funding. In addition, many other challenges like rising interest rates, falling merchant power tariff, worsening health of SEBs (state electricity boards) and increased costs of imported coal have taken a further toll on power generation companies. In view of these facts, any delay/cancelation in plans of setting up power generation projects could impact order inflow of power equipment manufacturers including BGR Energy.
- Any delay/postponement in project execution on BGR Energy or clients' side will further elongate the working capital cycle as well as impact revenue booking.

Recommendation

BGR Energy Systems Ltd. (BGRL.IN/ BGRE.BO) has evolved from a Balance-of-Plant (BoP) contractor into a full-service Engineering, Procurement and Construction (EPC) player in the power sector, and has been boldly competing for business with established giants like BHEL and L&T. The company designs, engineers and supplies equipment for power plants and also undertakes related civil work. Its other businesses include the manufacture and sale of oil & gas equipment and air fin coolers & execution of environmental engineering and electrical projects.

At CMP of ₹ 318, share is trading at 2.41x P/BV FY11 BV, 1.89x P/BV FY12E BV and 1.54x P/BV FY13E BV. At CMP, share is available at 4.25x FY11 EV/EBITDA, 3.90x FY12E EV/EBITDA and 3.72x FY13E EV/EBITDA. At CMP of ₹ 318, share is trading at 7.45x FY11 EPS, 6.94x FY12E EPS and 6.65 FY13E EPS. At our target of ₹ 446, share is available at 10.35x FY11 EPS, 9.64x FY12E EPS and 9.24x FY13E EPS. At CMP of ₹ 321 we initiate our coverage on stock with '**BUY**' rating for a medium term investment horizon with a target of ₹ 446 which is an upside of 40% from CMP. We strongly recommend buy.

Stock Rating Scale

Particulars	Price Appreciation (%)
Buy	>25%
Accumulate	12-25%
Hold	7-12%
Reduce	0- 7%
Sell	< 0 %

CNI Research Limited

A/120, Gokul Arcade, Sahar Road, Vile Parle (East). Mumbai- 400 057. Tele Fax –022- 28242220

DISCLAIMER STATEMENT

This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document is solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendary nature. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval.

This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

Copyright in this document vests exclusively with CNI RESEARCH LTD.