

COMPANY UPDATE

BGR Energy (BGRE.BO)

Neutral

Equity Research

NTPC order win – additional capex to weigh on profits, stay Neutral

What's changed

BGR Energy has emerged as the lowest bidder for NTPC's 9X800 bulk order for turbine and generator set. Based on the tender documents, BGR expects to be awarded 5 sets with 4 sets going to BHEL if the latter matches the price bid by BGR energy. The technical evaluation of the bid is currently underway. The bid by BGR is at a value of Rs9.2 mn per MW similar to the lowest bid seen in the previous bulk tender by NTPC (Bharat Forge-Alstom JV in Oct 10'). Based on media reports (CNBC TV18), L&T has emerged as L2 bidder but would have to step back for BHEL (per pre-conditions of the bid set by NTPC).

Implications

We think this order win for BGR is positive for the company's revenue growth and provides visibility – we increase our FY12E/13E/14E revenues by 6%/22%/11% on the back of this order win. However, we estimate the company's share of capex in the BTG facilities over the next 3 years of Rs 30bn would require additional debt of Rs 19bn, impacting earnings owing to higher finance charges. As a result, we change our EPS for FY12E/13E/14E by +3/+7/-17%. Additionally, margins may also get negatively impacted, depending on the proportion of imported content in the initial few orders.

Valuation

Maintain Neutral as we believe future revenue growth may come at lower profitability given increased competition. We increase our 12m P/E-based TP to Rs 450 (from Rs 428) on the back of increased earnings. The stock trades at 12m fwd P/E multiple of 8X vs. BHEL – the largest power equipment maker trading at 13X. We expect ROE for BGR to decline from 39% in FY11 to 20% by FY14E as investment cycle kicks in for the BTG facility.

Key risks

Upside: (1) Improving margins on existing orders, (2) higher BoP order inflows; Downside: (1) Substantially increased price-based competition from peers, and (2) volatile commodity prices.

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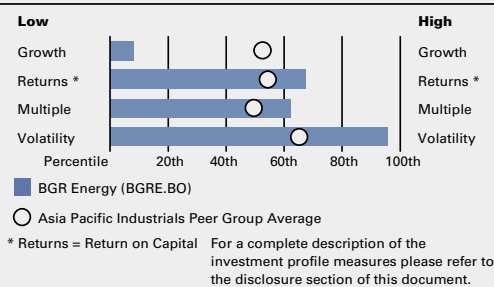
Coverage View: Neutral

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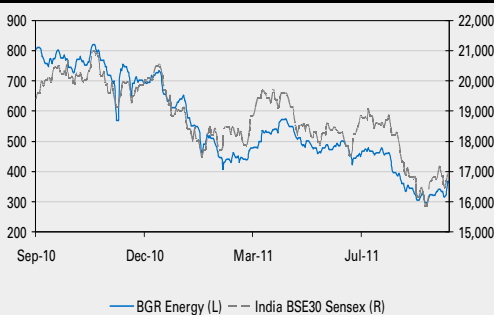
Investment Profile



Key data	Current
Price (Rs)	362.00
12 month price target (Rs)	450.00
Market cap (Rs mn / US\$ mn)	26,064.0 / 551.4
Foreign ownership (%)	1.8

	3/11	3/12E	3/13E	3/14E
EPS (Rs) New	44.81	44.33	47.77	42.76
EPS revision (%)	0.0	2.9	7.0	(16.8)
EPS growth (%)	60.4	(1.1)	7.7	(10.5)
EPS (dil) (Rs) New	44.81	44.33	47.77	42.76
P/E (X)	8.1	8.2	7.6	8.5
P/B (X)	2.7	2.2	1.8	1.5
EV/EBITDA (X)	9.5	7.0	7.4	8.0
Dividend yield (%)	2.5	2.5	2.6	2.4
ROE (%)	39.0	29.6	25.6	19.2
CROCI (%)	29.0	19.5	18.5	16.4

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(27.2)	(19.1)	(55.1)
Rel. to India BSE30 Sensex	(22.7)	(12.3)	(48.5)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 9/16/2011 close.

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BGR Energy: Summary Financials

Profit model (Rs mn)	3/11	3/12E	3/13E	3/14E	Balance sheet (Rs mn)	3/11	3/12E	3/13E	3/14E
Total revenue	47,498.2	49,100.9	59,118.3	61,956.3	Cash & equivalents	10,448.8	8,840.0	5,108.5	1,510.2
Cost of goods sold	(39,325.0)	(40,508.2)	(48,772.6)	(51,114.0)	Accounts receivable	31,579.7	33,630.7	40,492.0	42,435.8
SG&A	(2,983.7)	(3,191.6)	(3,842.7)	(4,027.2)	Inventory	410.7	426.4	513.4	538.0
R&D	--	--	--	--	Other current assets	8,715.8	8,715.8	8,715.8	8,715.8
Other operating profit/(expense)	0.0	0.0	0.0	0.0	Total current assets	51,155.0	51,612.9	54,829.7	53,199.9
EBITDA	5,370.0	5,646.6	6,798.6	7,125.0	Net PP&E	2,839.6	13,594.5	24,299.5	32,490.4
Depreciation & amortization	(180.5)	(245.5)	(295.6)	(309.8)	Net intangibles	5.9	5.4	4.8	4.2
EBIT	5,189.5	5,401.1	6,503.0	6,815.2	Total investments	5.3	5.3	5.3	5.3
Interest income	--	470.2	397.8	229.9	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(604.7)	(1,337.3)	(2,237.3)	(2,937.3)	Total assets	54,005.7	65,218.2	79,139.3	85,699.8
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	20,516.5	20,178.4	24,295.2	25,461.5
Others	222.7	222.7	400.0	400.0	Short-term debt	12,858.5	13,858.5	14,358.5	14,858.5
Pretax profits	4,807.6	4,756.7	5,063.5	4,507.8	Other current liabilities	3,454.3	6,936.6	6,936.6	6,936.6
Income tax	(1,577.2)	(1,560.5)	(1,619.8)	(1,424.9)	Total current liabilities	36,829.3	40,973.5	45,590.3	47,256.6
Minorities	0.0	0.0	0.1	0.1	Long-term debt	514.8	8,514.8	15,014.8	17,514.8
Net income pre-preferred dividends	3,230.4	3,196.2	3,443.8	3,082.9	Other long-term liabilities	6,622.8	3,140.9	3,140.9	3,140.9
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	7,137.7	11,655.7	18,155.7	20,655.7
Net income (pre-exceptionals)	3,230.4	3,196.2	3,443.8	3,082.9	Total liabilities	43,966.9	52,629.2	63,746.0	67,912.3
Post-tax exceptionals	0.0	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	3,230.4	3,196.2	3,443.8	3,082.9	Total common equity	9,520.1	12,070.3	14,874.8	17,269.0
EPS (basic, pre-exception) (Rs)	44.87	44.39	47.83	42.82	Minority interest	518.7	518.7	518.6	518.5
EPS (basic, post-exception) (Rs)	44.87	44.39	47.83	42.82	Total liabilities & equity	54,005.7	65,218.2	79,139.3	85,699.8
EPS (diluted, post-exception) (Rs)	44.81	44.33	47.77	42.76	BVPS (Rs)	132.22	167.64	206.59	239.84
DPS (Rs)	8.97	8.88	9.57	8.56					
Dividend payout ratio (%)	20.0	20.0	20.0	20.0					
Free cash flow yield (%)	(1.1)	(34.9)	(31.7)	(12.3)					
Growth & margins (%)	3/11	3/12E	3/13E	3/14E	Ratios	3/11	3/12E	3/13E	3/14E
Sales growth	54.5	3.4	20.4	4.8	CROCI (%)	29.0	19.5	18.5	16.4
EBITDA growth	56.0	5.2	20.4	4.8	ROE (%)	39.0	29.6	25.6	19.2
EBIT growth	55.4	4.1	20.4	4.8	ROA (%)	6.9	5.4	4.8	3.7
Net income growth	60.4	(1.1)	7.7	(10.5)	ROACE (%)	38.1	19.3	14.3	11.2
EPS growth	60.4	(1.1)	7.7	(10.5)	Inventory days	2.7	3.8	3.5	3.8
Gross margin	17.2	17.5	17.5	17.5	Receivables days	197.4	242.4	228.8	244.3
EBITDA margin	11.3	11.5	11.5	11.5	Payable days	146.4	183.3	166.4	177.7
EBIT margin	10.9	11.0	11.0	11.0	Net debt/equity (%)	29.1	107.5	157.6	173.5
					Interest cover - EBIT (X)	8.6	6.2	3.5	2.5
Cash flow statement (Rs mn)	3/11	3/12E	3/13E	3/14E	Valuation	3/11	3/12E	3/13E	3/14E
Net income pre-preferred dividends	3,230.4	3,196.2	3,443.8	3,082.9	P/E (analyst) (X)	8.1	8.2	7.6	8.5
D&A add-back	180.5	245.5	295.6	309.8	P/B (X)	2.7	2.2	1.8	1.5
Minorities interests add-back	0.0	0.0	0.0	0.0	EV/EBITDA (X)	9.5	7.0	7.4	8.0
Net (inc)/dec working capital	(2,537.2)	(2,404.8)	(2,831.5)	(802.2)	EV/GCI (X)	2.6	1.3	1.2	1.1
Other operating cash flow	604.7	867.1	1,839.4	2,707.4	Dividend yield (%)	2.5	2.5	2.6	2.4
Cash flow from operations	1,478.4	1,904.1	2,747.3	5,297.9					
Capital expenditures	(2,000.0)	(11,000.0)	(11,000.0)	(8,500.0)					
Acquisitions	(3,102.0)	0.0	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	0.0	470.2	397.8	229.9					
Cash flow from investments	(5,102.0)	(10,529.8)	(10,602.2)	(8,270.1)					
Dividends paid (common & pref)	(402.9)	(646.1)	(639.2)	(688.8)					
Inc/(dec) in debt	4,800.0	9,000.0	7,000.0	3,000.0					
Common stock issuance (repurchase)	0.0	0.0	0.0	0.0					
Other financing cash flows	(604.7)	(1,337.3)	(2,237.3)	(2,937.3)					
Cash flow from financing	3,792.4	7,016.6	4,123.4	(626.1)					
Total cash flow	168.8	(1,609.1)	(3,731.5)	(3,598.3)					

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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Overview

Exhibit 1: Various private players in the process of setting up BTG facilities; expect BGR to import the equipment for the initial few turbines as the facility will take time to come up

Existing and upcoming facilities in BTG in India

BTG player	JV structure	Boiler capacity (MW)	Turbine capacity (MW)	Additional components	Proposed investment (Rs mn)	COD/ Status	Location
BHEL		15,000 going to 20,000			5,000-6,000	End FY12	various
L&T-Mitsubishi Heavy Industries (Turbine-Generator) L&T - Mitsubishi Electric Corporation (Boilers)	51-49	4,000		Foundry, Piping and Forgings	36,000 (18,000 for BTG)	15 Jul'10	Hazira
Toshiba-JSW Turbine & Generator	72-25	-	3,000	None	10,000	Early FY12	Chennai
Bharat Forge - Alstom	49-51	-	5,000	Heat exchangers and condensers	24,000	2012 / Started construction in Dec'09	Mundra
GB-Engineering-Ansaldo	15-85	2,000	-	None	1,500	2012 / initial stages of setting up	Trichy
Thermax - Babcock & Wilcox	51-49	3,000	-	None	7,000	2012 / JV signed in Mar'10	NA
BGR Energy - Hitachi	74-26 (T) 70-30 (B)		4,000	None	44,000	2012 / JV signed in Aug' 10	Chennai
Total		18,000	21,000		127,500		

Source: Company data, Goldman Sachs Research.

Exhibit 2: Competition is increasing – bid value close to the previous bulk tender awarded by NTPC

Recent NTPC turbine generator bids

L1 bidder	Total order size	Price per MW (Rs mn)	Period of bid
Bharat Forge - Alstom	5X660	9.9	Oct'2010
BGR - Hitachi	5X800	9.2	Sept'2011

Source: Business Standard, Company data, Goldman Sachs Research.

Exhibit 3: We expect the Rajasthan order to come in FY12E, however, sensitivity of the order inflow to FY13/14E revenue and profits is high

Sensitivity analysis to Rajasthan order for BGR – Revenue and earnings

	Order inflow (Rs mn)	Rs mn	FY12E	FY13E	FY14E
current estimates	95000	Revenue	49,101	59,118	61,956
		Net Income	3,196	3,444	3,083
excluding Rajasthan order	40000	Revenue	43,601	38,779	45,890
		Net Income	2,790	1,956	1,991
downside risk ex Rajasthan order	55000	Revenue	-11%	-34%	-26%
		Net Income	-13%	-43%	-35%

Source: Company data, Goldman Sachs Research estimates.

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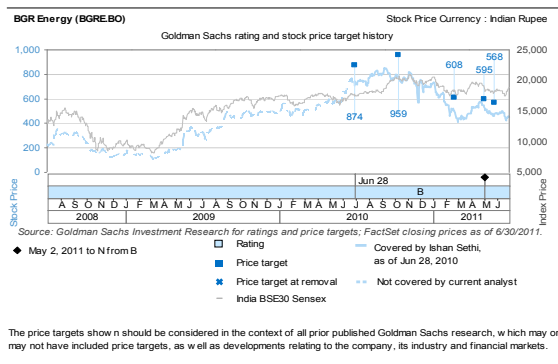
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