



Company report

BGR Energy Systems Ltd.

10th March 2010**BUY**CMP(as on 9/3/10) **Rs 508.00**Target Price **Rs 625.00**

BSE Code	532930
NSE Code	BGRNERGY
Market Cap (Rs Mn)	36576.00
52 Week High/Low	593.35/109.40
Industry	Capital Goods
Face Value	Rs 10
Shares O/S	7,20,00,000

EPS(TTM) 19.40

CEPS(TTM) 20.65

Book Value 78.32

P/E 26.19

P/B 6.49

Company Snapshot

The Company was originally incorporated in 1985, as a joint venture between GEA Energietechnik GmbH, Germany and the Promoter, Mr. B.G. Raghupathy. BGR Energy carries on the business in two segments, the Supply of systems and Equipment and Turnkey Engineering project contracting. In the Turnkey Engineering project contracting business, the company engineer, manufacture, procure, construct and commission projects in the Power and Oil & Gas sector, wherein it take Turnkey responsibility to supply of a range of equipment and services, including the civil works required for a project and other work as may be required under the contract for such project. The company executes Turnkey Contracts to supply the Balance of Plant ("BOP") Equipment, Services and Civil works for Power Generation projects, in which it supply, from a single source, the Balance of the plant, i.e. items other than the Boiler, Turbine and Generator. It also has begun to focus on Engineering, Procurement and Construction ("EPC") contracts, in which it Design, Engineer and Supply all of the equipment required for a Power Plant including the Boiler, Turbine and Generator and Civil works.

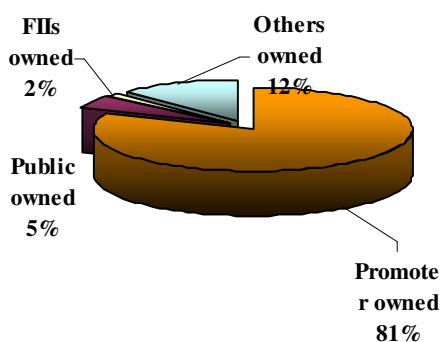
Quarterly Financial Highlights

Rs Million

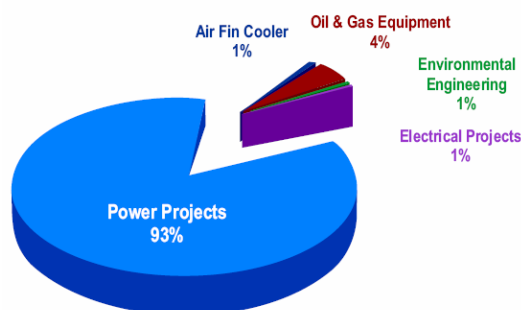
Particulars	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Sales	4724.28	7182.63	3110.66	4659.61	6351.45
Expenditures	4228.93	6346.56	2688.32	4086.09	5637.15
Operating Profit	495.35	836.07	422.34	573.52	714.30
Net Profit	272.08	469.66	202.35	305.65	419.10
OPM%	10.49	11.64	13.58	12.31	11.25
NPM %	5.76	6.54	6.51	6.56	6.60
EPS	3.78	6.52	2.81	4.25	5.82

The company has registered strong results for the quarter ended December 2009. The net sales witnessed a sharp growth rate of around 35% at Rs.6351.45 million from Rs.4724.28 million in the like period previous year translating operating profits even higher at Rs.714.30 million from Rs.495.35 million in Q3FY09. Similarly, the bottom line witnessed a sharp surge of 54 percent to stay at Rs.419.10 million from Rs.272.08 million clocked in Q3FY09. The company has been able to maintain its margin trajectory intact. Operating profit margins stood at 11.25% while net profit margins were at 6.60% in quarter ended December 2009. EPS jumped by about 54% at Rs.5.82 from Rs.3.78 in Q3FY09. TTM EPS stood at Rs.19.40.

Shareholding Pattern



Order backlog status as on 31/12/09



The company enjoys cost advantage due to 40 percent in-house BOP manufacturing

Order backlog of Rs.116 billion entails good revenue visibility

Investment Rationale

Healthy order backlog: BGR Energy continues to enhance its manufacturing capabilities and product range. It has strong order backlog of Rs.116088 million as on December 2009. This includes Rs.109744 million for Power projects division, Rs.1112 million for Air Fin Cooler, Rs.4558 million for Oil & Gas Equipment division, Rs.341 million for Environmental Engineering division and Rs.333 million for Electrical Projects division. These include few international orders as well.

Balance-of-plant is its core competence: Adequate number of quality EPC players in BoP would be necessary to meet capacity addition targets. BGR Energy has emerged as a serious player in the power EPC and BOP business with its competitive cost advantage arising due to 40% in-house BOP manufacturing. It stands to gain market share in this business and its capability to service the requirements of a wide range of power plants has placed the company in a good position over its competitors.

Strong Revenue visibility: With order backlog of Rs.116 billion (as on December 2009-end), BGR stands to have good revenues coming up in near future. Further, recent prestigious orders like two contracts from Indian Oil Corporation (IOC) valued at Rs.464.50 billion, order from Jindal Steel and Power (JSPL) for supply of 18 carbon steel bundles, order for 'Total Water System' worth Rs.156 million from Adhunik Power & Natural Resources and contract from CINDA, a subsidiary of Taiwan-based largest integrated engineering and construction firm 'CTCI Corporation' worth Rs.450 million and other reputed orders provides good revenue visibility for BGR.

Product portfolio expansion: BGR Energy is moving up the value chain through technical collaboration agreements to manufacture coal-fired and co-generative boilers. Recently, BGR Energy has signed a license and technology transfer agreement with Nooter/ Eriksen, USA for design, manufacture and sale of heat recovery steam generator (HRSG) or more commonly known as heat recovery boiler.

Risks and Concerns

- BGR is vying for bigger orders, which generally have lower margin with higher risk of timely completion. Delay in project execution could adversely impact BGR in terms of penalties enforced by clients. Further, shortage of skilled manpower in the industry and higher attrition could hamper the project execution capability.

Consolidated Financial Matrix

Rs. Million

Particulars	FY07*	FY08	FY09
Net sales	7899.81	15176.54	19313.84
Growth %	----	-----	27.26
Expenditure	7015.69	13623.14	17224.89
EBITDA	884.12	1553.40	2088.95
Growth %	-----	-----	34.48
EBITDA margin	11.19	10.24	10.82
Other income	3.00	65.51	317.07
Depreciation	88.76	55.39	75.03
EBIT	798.36	1563.52	2330.99
Interest	179.68	267.84	579.49
PBT	618.68	1295.68	1751.50
Tax	210.53	411.05	595.83
Adjusted PAT	408.15	884.63	1155.67
Growth %	-----	-----	30.64
Net Profit margins	5.17	5.83	5.98
Equity Capital	108.00	720.00	720.00
Reserves & surplus	721.14	4017.47	4919.01
EPS	37.79	12.29	16.05
CEPS	46.01	13.06	17.09

*FY07 financials are for 18 months.

Ratios

Particulars	FY07*	FY08	FY09
Sales to Equity	73.15	21.08	26.82
Reserves to Equity	6.68	5.58	6.83
Equity Turnover	73.15	21.08	26.82
Asset Turnover	1.26	0.99	0.72
Current Ratio	1.98	2.54	1.94
Return on Net Worth	49.23	18.67	20.49
Debt to Equity	2.97	1.06	1.26
Interest coverage ratio	4.44	5.84	4.02

Past Price movement of the stock



Valuation

Increasing GoI thrust on power sector via plan allocation for power sector doubling under Budget 2010-2011, BGR's unique position as a single-package BOP/EPC solution provider, robust order book and an edge of cost advantage over its peer competitors are the key growth drivers for the company going forward. Enhancement of manufacturing capabilities and expansion of product range and strong revenue visibility will add value to the company. In the wake of such growth, BGR Energy Systems Ltd seems to be extremely attractive investment opportunity.

Presently, the stock is trading at Rs 508(price on 9/3/2010) which is at 26.19 times to its TTM earnings and 6.49 times to its book value of Rs 78.32. Since the stock offers good opportunity, we initiate a '**BUY**' signal on the stock with a target price of **INR 625.00** in short to medium term investment horizon expecting an appreciation of about 23% from the current level of **INR 508.00**.

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MEMBER-NSE

HEM MULTI COMMODITIES PRIVATE LIMITED

MEMBER-NCDEX, MCX

HEM FINANCIAL SERVICES LIMITED

SEBI REGISTERED CATEGORY I MERCHANT BANKER

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