

CMP: Rs. 651

OUTPERFORMER

Upside: 12%

Target: Rs. 728

3rd June, 2010

Recommendation History

Date	Rating	Rec.Price
14-May-09	BUY	Rs.191
23-Jun-09	BUY	Rs.290
27-Jul-09	OUTPERFORMER	Rs.360
28-Aug-09	BUY	Rs.380
29-Oct-09	OUTPERFORMER	Rs.462
5-Jan-10	BUY	Rs.502

Key Share Data

BSE Code	532930
NSE Code	BGRENERGY
Bloomberg	BGRL IN
Reuters	BGRE.BO
Industry	Engineering-Turnkey Services
Sensex	17022.33
Nifty	5110.5
Equity (Rs.Cr)	72
F.V (Rs.)	10
M.Cap (Rs. Cr)	4687
52 Wk H/L	672/257
Avg Daily Volume	253,000

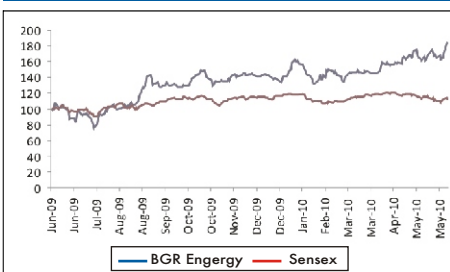
Absolute Returns (%)

	1m	3m	12m
Absolute	5.0%	29.8%	82.9%
Rel. to Sensex	10.7%	28.9%	71.2%

Shareholding Pattern (%): (31th Mar'10)

Promoters	81.3%
FII & Institutions	14.0%
Public & Others	4.7%

Relative Price Movement



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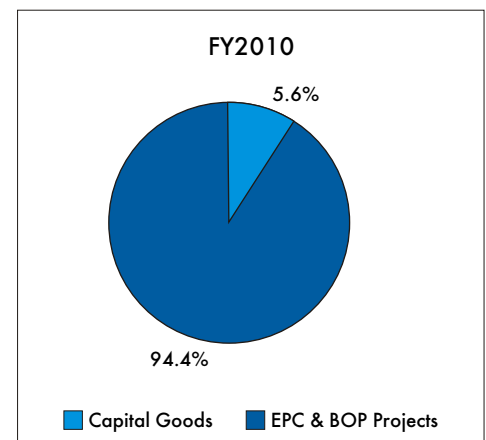
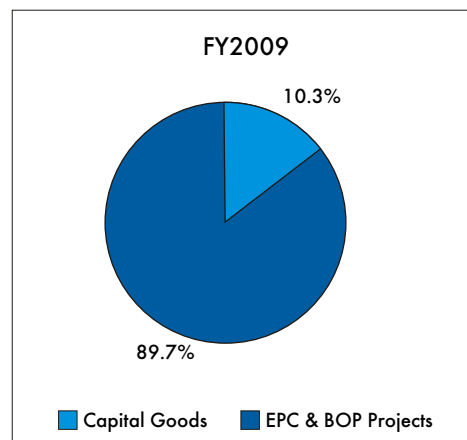
The performance pertaining to BGR Energy Systems Ltd. (BGR) for the 4QFY'10 and FY10 were much better than our expectations on all financial parameters. We have upgraded the revenue and earnings estimates for FY'11e to factor in the better 4Q'10 numbers and also introduced FY12e financials.

Earlier, we have given a BUY recommendation on BGR in our report dated 5th January 2010 at the then current price of Rs.502.

4QFY'10 & FY'10 Performance Highlights:

Net Sales for the 4QFY10 increased by 130.7% y-o-y to Rs.1657.1 cr; sequentially it went up by 161%. For the full year, the company reported revenue of Rs.3069.25 cr as compared to Rs.1922.1 cr in FY09. The substantial growth in revenue was mainly attributed to the strong execution of its EPC and BOP projects.

The revenue contribution from EPC & BOP Projects was at 94.4% and Capital goods segment was 5.6% during FY10.



EBITDA increased 110% y-o-y to Rs.172.5 cr in 4QFY'10, however there was a marginal decline in EBITDA margins by 110bps from 11.5% to 10.4% largely on account of higher raw material cost. For the full year, the EBITDA margin improved by 40bps to 11.2% in FY'10 as compared to 10.8% in FY'09.

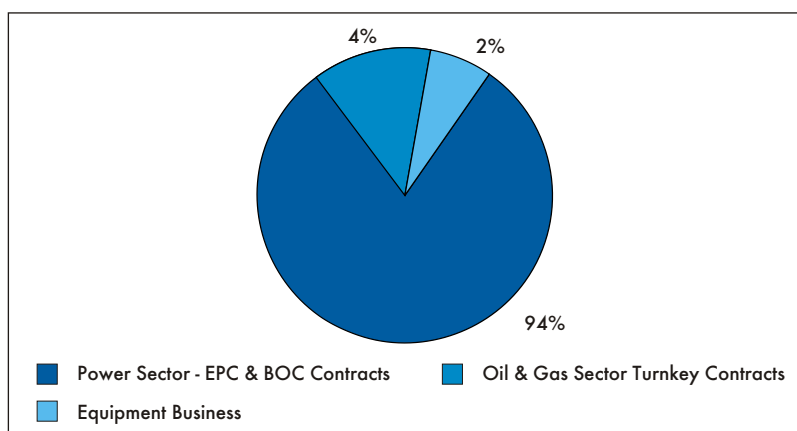
PAT for the 4QFY10 increased by 130.6% y-o-y to Rs.108.31 cr. For the FY'10, PAT increased 74.6% y-o-y to Rs.201.02 cr as compared to Rs.115.1 cr in FY'09. Net margins for the 4QFY10 remained flat at 6.5%, however for the full year the margins improved by 50bps to 6.5% from 6.0% on account of lower interest cost.

Particulars	Q4FY10	Q4FY09	YoY (%)	Q3FY10	QoQ (%)	FY10	FY11E	FY12E
Net Sales	1657.08	718.26	130.7%	635.14	160.9%	3073.40	4286.55	5509.38
Total Expenditure	1484.58	635.93	133.5%	563.72	163.4%	2729.24	3802.17	4900.05
EBITDA	172.5	82.33	109.5%	71.42	141.5%	344.16	484.38	609.34
Margin	10.4%	11.5%	-	11.2%	-	11.2%	11.3%	11.1%
PBT	164.22	70.69	132.3%	41.47	296.0%	305.11	421.62	516.29
Tax	55.91	23.72		14.26	-	103.66	143.35	175.54
PAT	108.31	46.97	130.6%	30.56	254.4%	201.46	278.27	340.75
Margin	6.5%	6.5%	-	4.8%	-	6.6%	6.5%	6.2%
EPS (Rs.)	15.04	6.52	-	3.78	-	27.98	38.65	47.33

Robust Order Book:

The addition to order book continues to be robust during FY'10. As on 31st March 2010, the order book position of the company is at ~Rs. 102.3 bn (3.3x FY'10 sales) which provides good revenue visibility.

Out of the total order book of Rs. 102.3 bn: Power sector EPC & BOC contracts stood at Rs. 95.9 bn (94%) and Oil & Gas sector orders Rs. 4.51 bn (4%).



During the FY'10, the company was successful in securing orders worth Rs. 36.8 bn. The company is planning to bid for projects to the tune of Rs. 350-400 bn in FY'11e compared to Rs. 305 bn in FY'10 and expects to receive orders worth Rs. 100-150 bn in 1HFY11e. The company had put in bids for about 4 projects worth Rs. 140 bn, including for the EPC work for a 2x660MW power plant in Rajasthan worth Rs. 120 bn, however more clarity will come in the 2QFY11e.

The company is looking to spend ~Rs. 100 cr this fiscal as capex on the acquisition of construction equipment.

Other Key Developments:

BGR has announced a technical collaboration with German power major, Hitachi Power Europe GmbH for supercritical steam generators. BGR through its majority owned subsidiary company viz., BGR Boiler Pvt Ltd has entered into Technical Collaboration agreements with Hitachi Power Europe GmbH, Germany for 660 MW, 800 MW, 1000 MW and 1100 MW Supercritical Steam Generator (Boilers).

BGR, which used to import boiler, turbine, generator (BTG) will soon start manufacturing supercritical turbines and generators in Tamil Nadu in association with Hitachi.

Outlook & Valuations

Increasing Govt. of India' thrust on power sector through planned allocation for power sector, BGR's unique position as a BOP/EPC solution provider, robust order book and strong execution track record are the key growth drivers for the company going forward.

Based on the current order book and strong execution capability, we expect the company to end this fiscal year with net sales of Rs. 4286.5 crore. We estimate BGR to post sales and profit CAGR of 34% and 30% respectively through FY'10-12e and expect the company to report an EPS of Rs. 38.6 and Rs. 47.3 for FY'11e & FY'12e respectively. We have revised upward our earlier FY'11e EPS estimate by 27% to Rs. 38.6. However, given the sharp run up in the stock price, we rate the stock as MARKET OUTPERFORMER with a revised Target Price of Rs. 728 implying 12% upside from the current levels.

The stock, at Rs. 651 quotes at P/E multiple of 16.8x FY'11e and 13.8x FY'12e respectively.

FINANCIALS:

(Rs. Cr.)

(Rs. Cr.)

P&L Statement - Consolidated	FY09	FY10	FY11E	FY12E
Net Sales	1930.32	3073.40	4286.55	5509.38
Total Expenditure	1721.43	2729.24	3802.17	4900.05
Consumption of Raw Materials	1585.01	2486.4	3481.54	4482.43
Stock Adjustments	-1.06	2.51	0	0
Employee Cost	74.38	126.19	173.18	225.33
Other Expenses	63.10	114.14	147.46	192.28
EBITDA	208.89	344.16	484.38	609.34
EBITDA Margin	10.8%	11.2%	11.3%	11.1%
Depreciation	7.5	10.28	15.99	21.05
EBIT	201.39	333.87	468.39	588.29
Interest	57.95	53.76	77.20	99.86
Other Income	31.70	25.00	30.43	27.86
PBT	175.15	305.11	421.62	516.29
Tax	19.49	103.66	143.35	175.54
Fringe Benefit Tax	0.97	0	0	0
Deferred Tax	39.12	0	0	0
PAT	115.57	201.46	278.27	340.75
Minority Interest (after tax)	0	0	0	0
PAT after Minority Interest	115.57	201.46	278	341
Extraordinary Items	0	0	0	0
Adjusted PAT	115.57	201.46	278.27	340.75
Margin	6.0%	6.6%	6.5%	6.2%
Adj. EPS (Rs.)	16.1	28.0	38.6	47.3

Ratios	FY09	FY10	FY11E	FY12E
Profitability:				
EBITDA Margin	10.8%	11.2%	11.3%	11.1%
Net Profit Margin	6.0%	6.6%	6.5%	6.2%
RoCE	15.8%	19.3%	20.8%	20.8%
RoNW	20.5%	27.1%	28.6%	27.1%
ROA	9.1%	11.7%	12.3%	12.0%
Per Share Ratios:				
EPS (Rs.)	16.05	27.98	38.65	47.33
Div. Per Share (Rs.)	3.00	7.00	7.50	8.00
Cash EPS (Rs.)	17.09	29.41	40.87	50.25
BVPS (Rs.)	78.3	103.3	134.9	174.8
Valuation Ratios:				
P/E	40.6	23.3	16.8	13.8
P/CEPS	38.1	22.1	15.9	13.0
P/B	8.3	6.3	4.8	3.7
EV/EBITDA	24.0	14.6	10.3	8.2
EV/Sales	2.6	1.6	1.2	0.9
Liquidity Ratios:				
Debtor Days	242	177	174	171
Inventory Days	2.6	2.8	2.9	3.0
Leverage Ratios:				
Interest Coverage	3.5	6.2	6.1	5.9
Debt/Equity	1.3	1.3	1.3	1.2

Balance Sheet - Consolidated	FY09	FY10	FY11E	FY12E
SOURCES OF FUNDS				
Share Capital	72	72	72	72
Reserves Total	491.9	671.8	899.6	1186.4
Networth	563.9	743.8	971.6	1258.4
Minority Interest	2.8	2.8	2.8	2.8
Total Debt	709.0	979.2	1279.0	1572.5
Total Liabilities	1275.7	1725.7	2253.4	2833.6
APPLICATION OF FUNDS				
Net Block	98.3	161.8	248.7	337.8
Capital Work in Progress	5.4	6.7	10.2	11.2
Investments	0.5	0.5	0.5	0.5
Current Assets:	2569.0	2777.1	3669.6	4580.3
Inventories	14.0	23.6	34.1	45.3
Sundry Debtors	1278.9	1490.4	2043.5	2581.1
Cash and Bank	615.2	655.3	772.4	949.4
Loans and Advances	661.0	607.9	819.7	1004.5
Current Liabilities	1255.1	1111.3	1527.2	1909.0
Provisions	67.7	109.1	148.3	187.3
Net Current Assets	1246.2	1556.7	1994.0	2484.1
Net Deferred Tax	-74.7	0.0	0.0	0.0
Total Assets	1275.7	1725.7	2253.4	2833.6

Cash Flow Statement	FY09	FY10	FY11E	FY12E
Profit Before Tax	175.15	305.11	421.62	516.29
Add: Depreciation	7.50	10.28	15.99	21.05
Op. Profit Before W. Cap Changes	233.79	294.45	514.81	637.20
Changes in W.C	(152.76)	(270.42)	(320.23)	(312.99)
Cash generated from operations	81.03	24.04	194.59	324.21
Taxes paid	(3.73)	(103.66)	(143.35)	(175.54)
Net Cash from Oper. Act. (A)	77.30	(79.62)	51.24	148.67
Purchase of Fixed Asset	(56.66)	(75.05)	(106.35)	(111.24)
Change in Investments	153.32	-	-	-
Interest Received / Income	-	-	-	-
Net Cash used in Inv. activities (B)	96.66	(75.05)	(106.35)	(111.24)
Cash flows from financing activities				
Equity raised / repaid	-	-	-	-
Debt raised / repaid	206.30	270.18	299.84	293.45
Dividends paid	(14.40)	(21.60)	(50.40)	(54.00)
Net cash used in Fin. activities ©	134.16	194.81	172.24	139.59
Cash & cash equivalent	615.13	655.27	772.39	949.41



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AASPL Investment Ranking

BUY: Expected to outperform the local market by more than 10%
OUTPERFORM: Expected to outperform the local market by 0-10%
NEUTRAL: In-line with the local market
UNDERPERFORM: Expected to underperform the local market by 0-10%
SELL: Expected to underperform the local market by more than 10%

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Disclosure of Interest Statement	BGR ENERGY SYSTEMS LTD.
1. Analyst ownership of the stock	Yes
2. Group/Directors ownership of the stock	Yes
3. Broking relationship with Company covered	No