

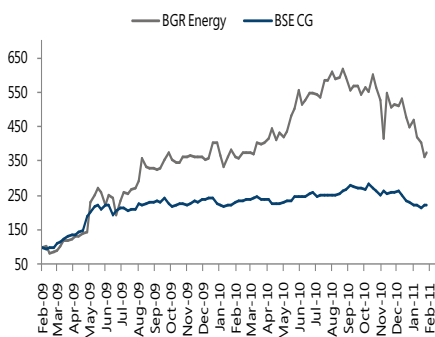
Result Update – Q3FY11

Buy

Reco	Upgraded
CMP	₹ 519
Target Price	₹ 695
Upside Potential	33.7%

Price Performance

52 wk Hi/Lo	950/435
All time Hi/Lo	989/107
6 mnth Average Vol	311157
Stock Beta	1.21



Valuation

	FY10	FY11P	FY12P
P/E (x)	18.6	12.5	10.8
P/BV (x)	5.2	3.9	3.1
RONW (%)	31.4	35.6	31.7
ROCE (%)	14.2	15.7	14.7

Peer Valuation (FY12P)

	BHEL	Alstom
P/E	14.8	19.2
P/BV	4.0	4.9

Equity Data

Market Cap. (₹ bn)	37
Face value (₹)	10
No of shares o/s (mn)	72

	Dec09	Dec10	%Δ
Promoters	81.31	81.15	-0.20
DFI's	7.32	4.49	-38.66
FII's	1.61	5.21	223.60
Public	9.76	9.15	-6.25

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BGR Energy

Lower order inflow- an overhang on a good quarter

BGR Energy delivered better than expected results for Q3FY11. The sales grew by 98% y-o-y to ₹ 12.6bln in Q3FY11 as against ₹ 6.4bln in Q3FY10. EBITDA increased by 106% y-o-y to ₹ 1472mln in Q3FY11. The margins increased by around 50 bps y-o-y from 11.2% to 11.7%. Consequently, PAT for the company stood at ₹ 876mln (up 109% y-o-y).

Strong execution on its EPC and BOP orders

BGR Energy's sales were 15% above our estimates mainly backed by strong execution on its two large EPC and BOP projects. The revenue contribution from EPC & BOP Projects was 95%; while capital goods segment contributed 5% during Q3FY11. EBITDA margin improvement of 50 bps has been led by decline in staff cost and other expenses from 10.6% of total income in Q3FY10 to 8% in Q3FY11.; while raw material cost as a percentage of sales increased from 78.2% to 80.4% y-o-y in Q3FY11.

Declining order backlog; banking on strong bidding pipeline

The order backlog at the end of Q3FY11 stands at ₹ 93.2bln (down 11.3% q-o-q); providing revenue visibility of at least one and a half years. Apart from a balance of plant (BOP) order of ₹ 21.7bln from Thermal Powertech Corporation Limited for a 2x660 MW super-critical power plant at Krishnapatnam in Andhra Pradesh; BGR has not bagged any significant order during 9MFY11. BGR may receive one of the Rajasthan Rajya Vidyut Utpadan Nigam Limited (RRVUNL) EPC order for 2x 660MW each (Suratgarh and Chhabra projects in which BHEL has emerged as L1 bidder); if it matches the L1 price. However, RRVUNL has deferred the award of orders for some time as it is still awaiting coal linkages for the same. BGR has also been technically qualified for 11 x 660MW NTPC boilers tender which is put on hold owing to one of the bidders (GB Engineering-Ansaldo) challenging their disqualification from the tender.

Outlook and Valuation

The muted order inflow across power sector has impacted BGR Energy leading to significant de rating of the stock; which has led to change in sales and earnings estimates for FY12P. We believe; in order to continue the growth momentum, strong order inflow is imperative in the near term and hence success in the above mentioned orders remains key trigger for stock re rating. BGR trades at a P/E of 12.5x FY11P EPS and 10.8x FY12P EPS and EV/EBITDA of 7.7x FY11P and 6.4x FY12P. The stock is attractively valued and hence we upgrade our rating from Accumulate to Buy with a revised target price of ₹ 695.

Summary Financials

₹ mln	FY09	FY10	FY11P	FY12P
Total Income	19303	30734	45586	54039
OPBDIT	2089	3442	5173	6198
Adj. Net Profit	1156	2015	2984	3450
Adj EPS	16	28	41	48
Networth	5639	7213	9544	12240
Debt	7090	9500	13734	15934
Fixed Assets	1031	1440	1952	2096
Net Current Assets	12462	16037	22090	26842

Exhibit 1: Q3FY11 Performance Highlights

(in ₹ Mln)	Q3FY11	Q3FY10	y-o-y	Q2FY11	q-o-q
Total Income	12569	6351	98%	11356	11%
Raw Material Cost	10101	4964	103%	9284	9%
Staff Cost	415	317	31%	337	23%
Other Expenditure	581	356	63%	412	41%
OPBDIT	1472	714	106%	1323	11%
OPBDIT Margin %	11.7	11.2		11.7	
Depreciation	34	24	43%	33	4%
Interest Cost (Net)	168	93	81%	138	21%
Other Income	17	37	-55%	26	-35%
Tax	411	216	91%	400	3%
PAT	876	419	109%	778	13%
EPS	12.1	5.8		10.8	

Source: Company

Exhibit 2: Segmental Analysis

(in ₹ Mln)	Q3FY11	Q3FY10	y-o-y	Q2FY11	q-o-q
Capital Goods					
Revenue	632	271	133%	546	16%
PBIT	50	5	817%	41	22%
PBIT Margin (%)	7.9	2.0		7.4	
Construction and EPC contracts					
Revenue	11,878	6,080	95%	10,791	10%
PBIT	1388	672	106%	1,250	11%
PBIT Margin (%)	11.7	11.1		11.6	
Revenue Mix					
Capital Goods	5%	4%		5%	
Construction and EPC contracts	95%	96%		95%	

Source: Company

Key Result Highlights

- BGR Energy's total income grew by 98% y-o-y to ₹ 12.6bln in Q3FY11 as against ₹ 6.4bln in Q3FY10. The growth in sales was led by speedy execution of its two large EPC and BOP projects. The revenue contribution from EPC & BOP Projects was at 95%; while Capital goods segment contributed 5% during Q3FY11. Its two EPC projects- TNEB- Tamil Nadu project- Mettur and RRVUNL- Rajasthan project- Kalisindh, Jhalwar are 68% completed on an average and will be fully executed by December 2011 and March 2012 respectively.
- EBITDA increased 106% y-o-y to ₹ 1472mln in Q3FY11. There was an increase of 50bps y-o-y in EBITDA margins from 11.2% to 11.7%. PAT for Q3FY11 grew by 109% y-o-y to ₹ 876mln.
- The company has invested around ₹ 1.5bln in its JV with Hitachi which was formed in August 2010. BGR has been technically qualified for 11x 660MW NTPC boiler tenders which are likely to be awarded in a couple of months. Further, the company is also planning to bid for 800MW super critical tenders which have been opened for bidding recently.

Banking on comfortable bidding pipeline to boost order book

BGR Energy's order backlog at the end of Q3FY11 stands at ₹ 93bln. Despite having strong bidding pipeline in both EPC and BOP projects; BGR Energy has not had success in securing any large BTG/EPC order in FY11 so far. According to management, BGR may receive one of the Rajasthan Raja Vidyut Utpadan Nigam Limited (RRVUNL) EPC orders for 2x660MW each for Suratgarh and Chhabra. Although BHEL has emerged as L1 bidder; RRVUNL has an option of awarding one of the orders to L2 bidder; if the latter matches the L1 price. However, the orders have been deferred for some time as RRVUNL is still awaiting coal linkages for the same. BGR is also technically qualified for 11 x 660MW NTPC boilers tender which has been put on hold owing to one of the bidders (GB Engineering-Ansaldo) challenging their disqualification from the tender. We expect these orders to be awarded at least by FY11 end.

However, we believe that management's optimistic order inflow guidance of ₹ 100-120bln in FY11 is unlikely to be achieved; considering delays in all projects and stiff competition that it faces across BOP and EPC segments.

Outlook and Valuation

BGR Energy's revenues are covered for a year and a half given the strong unexecuted order book. However, order inflow concerns across sector have led to de rating of the stock in view of reduced earnings growth. We have marginally cut down our sales and PAT estimates by 4% and 2% respectively for FY12P. We expect revenue and PAT to grow at a CAGR of 33% and 31% respectively during FY10-12P. The stock trades at a P/E of 12.5x FY11P EPS and 10.8x FY12P EPS and EV/EBITDA of 7.7x FY11P and 6.4x FY12P. We believe the stock is attractively valued and hence upgrade our rating from Accumulate to Buy with a revised target price of ₹ 695 (14.5x FY12P).

Financial Summary

Profit & Loss

Particulars (₹ in mln)	2008	2009	2010	2011P	2012P
Total Income	15205	19303	30734	45586	54039
Total Expenditure	13652	17214	27292	40413	47841
EBITDA	1553	2089	3442	5173	6198
EBITDA Margin (%)	10.2	10.8	11.2	11.3	11.5
Depreciation	55	75	103	238	278
EBIT	1498	2014	3339	4935	5919
Interest cost	268	579	538	923	1245
Operating Profit	1230	1434	2801	4012	4674
Other Income	66	317	250	510	554
Extraordinary Item	-	-	-	-	-
PBT	1296	1752	3051	4522	5229
Tax	411	596	1037	1538	1779
PAT	885	1156	2015	2984	3450
PAT Margin (%)	5.8	6.0	6.6	6.5	6.4
EPS	12.3	16.1	28.0	41.4	47.9
Sales Growth (%)	93	27	59	48	19
EBITDA Growth (%)	76	34	65	50	20
PAT Growth (%)	112	31	74	48	16

Balance Sheet

Particulars (₹ in mln)	2008	2009	2010	2011P	2012P
Sources of Funds					
Share Capital	720	720	720	720	720
Reserves & Surplus	4017	4919	6493	8824	11520
Networth	4737	5639	7213	9544	12240
Secured Loans	4992	6360	7904	10504	12004
Unsecured Loans	35	730	1596	3230	3930
Total Loans	5027	7090	9500	13734	15934
Deferred Tax Liability	356	747	747	747	747
TOTAL	10147	13504	17490	24055	28950

Application of Funds

Net Fixed Assets	538	1031	1440	1952	2096
Investment	1514	5	5	5	5
Current Assets	13329	25690	35632	51112	60287
Current Liabilities	5240	13229	19595	29022	33445
Net Current Assets	8089	12462	16037	22090	26842
Misc Exps not written off	-	1	1	1	-
TOTAL	10147	13504	17490	24055	28950

Cash Flow

Particulars (₹ in mln)	2008	2009	2010	2011P	2012P
Internal accruals	940	1231	2117	3222	3728
(Inc)/Dec in Net Current Assets	5202	(1760)	(1489)	(2961)	(2222)
Other Adjustments	(7838)	1302	-	-	-
Cash flow from Operations	(1696)	773	629	261	1,506
Inc/(Dec) in Debt	2563	2063	2410	4234	2200
Inc/(Dec) in Equity	612	-	-	-	-
Dividend & Tax	(168)	(253)	(441)	(652)	(754)
Other Adjustments	2463	(469)	-	-	-
Cash flow from Financing	5469	1,342	1970	3581	1446
Fixed Asset formation	(81)	(555)	(512)	(750)	(423)
Inc/(Dec) in Investment	(1511)	1509	-	-	-
Other Adjustments	(39)	13	-	-	-
Cash flow from Investment	(1631)	967	(512)	(750)	(423)
Net Change in Cash	2141	3081	2087	3093	2529

Ratios

Valuation Ratio	2008	2009	2010	2011P	2012P
P/E	42.3	32.4	18.6	12.5	10.8
P/BV	7.9	6.6	5.2	3.9	3.1
EV/EBIDTA	25.3	18.4	11.2	7.7	6.4
EV/Sales	2.6	2.0	1.3	0.9	0.7
Dividend Yield (%)	0.4	0.6	1.0	1.5	1.7
EPS	12.3	16.1	28.0	41.4	47.9
DPS	2.0	3.0	5.2	7.7	9.0
Book Value	65.8	78.3	100.2	132.6	170.0
ROE	31.8%	22.3%	31.4%	35.6%	31.7%
ROCE	14.7%	11.6%	14.2%	15.7%	14.7%

Solvency Ratio (x)

Debt/Equity	1.1	1.3	1.3	1.4	1.3
Debt/EBIDTA	3.2	3.4	2.8	2.7	2.6

Turnover Ratio (x)

Asset Turnover	2.3	1.6	2.0	2.2	2.0
Fixed Asset Turnover	31.9	24.6	24.9	26.9	26.7
Current Ratio	2.5	1.9	1.8	1.8	1.8
Inventory (days)	4	3	2	2	2
Debtors (days)	177	242	235	230	225
Creditors (days)	140	129	266	253	256

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Key ratings:

Rating	Expected Return
Buy	> 15%
Accumulate	5 to 15%
Hold	-5 to 5%
Sell	< -5%
Not Rated	-

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