

BGR Energy Systems Ltd

BGRL IN; BGR.BO

February 7, 2012

Capital Goods | India

3Q/F12 result review **REDUCE**

Current price	Rs	234
Target price	Rs	214
Upside/(downside)	%	(9)
Earning estimate		Revised

Market data

Mkt capitalisation	Rs bn	16.9
Average daily vol	'000	1948.4
52-week H/L	Rs	588 / 172.2
Shares O/S	mn	72.2
Free float	mn	13.6
Promotor holding	%	81.1
Foreign holding	%	0.8
Face value	Rs	10.0

Price performance (%)

	1m	3m	6m	1yr
Nifty (abs)	12.2	1.0	2.4	(1.1)
Stock (abs)	25.1	(31.6)	(35.0)	(56.8)
Relative to Index	12.8	(32.6)	(37.4)	(55.6)

Performance



Source: Bloomberg, SSL

Revenue below estimates; multiple hurdles for growth, downgrade to **REDUCE**

BGR Energy's 3QF12 revenues were Rs8.1bn against SSLe of Rs10.2bn. Product business grew 19% YoY, while project business declined 39% YoY. Product business accounted for 9% of total revenues, while project business accounted for remaining 91% of quarterly revenues. EBITDA margins grew to 16.3%, led by higher contribution from BoP projects (Chandrapur and Marwa are protected by price variation clauses). EBITDA was Rs1.31bn against SSLe of Rs1.34bn. PAT was 6.8% against SSLe of 6.5%.

Suratgarh (Rajasthan) project gets environment clearances, order inflow subject to lack of predatory pricing policy by BHEL: Order inflow was for an EPC contract of Rs17bn from TRN Energy Pvt Ltd in 3QF12. We expect Suratgarh project of Rs30bn to be part of BGR's order backlog only in 1QF13e. The Suratgarh order inflow is also subject to lack of predatory pricing by BHEL. However, compromise in margins to bag the Suratgarh order cannot be ruled out. BGR's order backlog on standalone basis is Rs80bn, up 13% QoQ and down 12% YoY.

Release of retention money lowers debt in the end of 3Q, lower interest expected in 4QF12: BGR's outstanding debt at the end of 3QF12 was Rs20.5bn against Rs23.1bn in 2QF12. Debt levels were lowered by partial release of retention money by customer and Rs400mn inflow of advance from order received during 3QF12. Despite dip in outstanding debt by 11% QoQ, interest cost increased 53% QoQ. Despite lower debt levels, interest cost rose because retention money was released at the end of 3QF12. We expect interest costs to be lower in 4QF12 on sequential basis.

3QF12 investment in JV Rs200mn; delay in land acquisition postpones commissioning: Investment in JVs for 1HF12 was Rs800mn. In 3QF12, the company invested additional Rs200mn in its two power equipment JVs. The scheduled commissioning of plant is delayed due to land acquisition issues. Capex planned in the subsidiaries for F13e is Rs3bn. Equity investment in JVs is funded mainly through internal accruals. Debt funding for JVs will be finalised in 4QF12.

Multiple hurdles to growth, downgraded to **REDUCE:** At the CMP of Rs234, BGR trades 7.9x/7.6x its F12e/F13e EPS of Rs29.7/30.6. Decrease in the pace of project execution, increase in EPC order inflows against BoP orders, delay in release of retention money by customer and predatory pricing by BHEL are the key concerns. Execution of EPC projects would pick up in F13e, its impact would be seen in lower margins and high working capital requirements. Thus, we have revised our estimates and downgraded the stock from an ADD to a **REDUCE** with a target price of Rs214.

Financial summary

Y/E March (Rs mn)	F 10	F 11	F 12e	F 13e
Sales (mn)	30,734	47,498	33,985	41,465
EBITDA	3,442	5,363	4,713	5,016
EBITDA margin (%)	11.2	11.3	13.9	12.1
PAT (mn)	2,015	3,230	2,140	2,209
EPS (Rs)	28.0	44.8	29.7	30.6
P/E (x)	8.4	5.2	7.9	7.6
EV/EBITDA (x)	4.6	3.7	5.2	5.9
Dividend yeild (%)	3.0	4.3	4.7	5.1
RoE %	28.5	33.9	19.9	18.5
ROCE %	23.7	25.1	15.4	13.5

Source: SSLe

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Quarterly financials

	Y/E March (Rs mn)	3Q/F12	3Q/F11	YoY (%)	2Q/F11	QoQ (%)	3Q/F12e	Var(%)
Product business grew 19% YoY, project business declined 39% YoY	Net Sales	8,037	12,569	(36.1)	7,715	4.2	10,200	(21.2)
	Raw Material Cost	5,876	10,101	(41.8)	5,824	0.9	7,760	(24.3)
	(% of revenues)	73.1	80.4		75.5		76.1	
	Manpower Cost	482	415	16.1	418	15.1	500	(3.7)
	(% of revenues)	6.0	3.3		5.4		4.9	
	Other Mfg Costs	367	581	(36.9)	371	(1.1)	600	(38.9)
	(% of revenues)	4.6	4.6		4.8		5.9	
	Total Costs	6,724	11,097	(39.4)	6,613	1.7	8,860	(24.1)
Increase in EBITDA margins due to higher concentration of BoP orders.	EBITDA	1,313	1,472	(10.8)	1,102	19.2	1,340	(2.0)
	EBITDA (%)	16.3	11.7		14.3		13.1	
	Depreciation	41.2	34.2	20.4	40.0	3.0	37.4	10.2
Interest increased despite QoQ drop in outstanding debt levels	Interest	462	168	175.4	302	52.9	330	39.9
	EBT	810	1,270		760	6.6	973	(16.7)
	Other Income	0.0	16.8		0.4	0.0	19.0	
	EBT	810	1,287		761	6.5	992	(18.3)
	Tax Provision	263	411	(36.0)	247	6.6	327	(19.5)
	PAT	547	876	(37.5)	514	6.5	664	(17.7)
	PAT(%)	6.8	12.1		6.7		6.5	
	EPS	7.6	12.1		7.1		9.2	

Source: SSLe

	F 12e	F 12e	F 12e	F 12e
Y/E March (Rs mn)	New	Old	New	Old
Net Sales	33,985	37,935	41,465	41,241
Raw Material Cost	25,972	29,389	30,949	31,259
(% of revenues)	76.4	77.5	74.6	75.8
Manpower Cost	1,700	1,700	2,000	2,000
(% of revenues)	5.0	4.5	4.8	4.8
Other Mfg Costs	1,600	2,092	3,500	3,500
(% of revenues)	4.7	5.5	8.4	8.5
Total Costs	29,272	33,181	36,449	36,759
EBITDA	4,713	4,754	5,016	4,482
EBITDA (%)	13.9	12.5	12.1	10.9
Depreciation	200	279	297	360
Interest	1,320	1,209	1,423	1,282
EBT	3,193	3,266	3,295	2,840
Other Income	1.0	110.0	1.5	258.3
EBT	3,194	3,376	3,297	3,098
Tax Provision	1,054	1,114	1,088	1,022
PAT	2,140	2,262	2,209	2,076
PAT(%)	6.3	6.0	5.3	5.0
EPS	29.7	31.3	30.6	28.8

Source: SSLe

Financials

Income Statement (Consolidated)

Y/E March (Rs mn)	F 10	F 11	F 12e	F 13e
Net Sales	30,734	47,498	33,985	41,465
% Growth	59.2	54.5	(28.4)	22.0
EBIDTA	3,442	5,363	4,713	5,016
% growth	64.8	55.8	(12.1)	6.4
Other Income	250	223	1	2
Depreciation	103	173	200	297
EBIT	3,589	5,412	4,514	4,720
EBIT margin	11.7	11.4	13.3	11.4
Interest	538	605	1,320	1,423
PBT	3,051	4,808	3,194	3,297
% Growth	74.2	57.6	(33.6)	3.2
Tax provision	1,037	1,577	1,054	1,088
PAT	2,015	3,230	2,140	2,209
% growth	74.3	60.4	(33.8)	3.2
Dividend (%)	70.0	100.0	110.0	120.0
EPS (Rs)	28.0	44.8	29.7	30.6
BVPS (Rs)	98.1	131.9	148.7	165.3

Balance Sheet (Consolidated)

Y/E March (Rs mn)	F 10	F 11	F 12e	F 13e
Equity Cap	720	722	722	722
Net worth	7,063	9,520	10,731	11,927
Total Debt	8,075	13,373	17,959	21,897
Net Deff Tax Liability	1,551	3,077	3,078	3,078
Minority Interst	29	519	519	519
Total Liability	16,717	26,489	32,287	37,420
Net Block	1,454	1,978	2,878	6,081
Capital WIP	104	862	861	861
Goodwill	6	6	6	6
Investments	5	5	5	5
Current Assets				
Inventory	162	411	3,087	3,880
Debtors	19,803	31,580	27,629	33,255
Cash & Bank	9,019	10,449	10,375	9,230
Loans & Advances	7,273	8,400	5,987	7,304
Other Current Assets	181	315	226	275
CL & Provisions				
Current Liabilities	18,955	23,971	15,095	19,286
Provisions	2,334	3,545	3,672	4,193
Net Current Assets	15,149	23,639	28,536	30,467
Total Assets	16,717	26,489	32,287	37,420

Source: Company, SSLe

Cash Flow Statement (Consolidated)

Y/E March (Rs mn)	F 10	F 11	F 12e	F 13e
PBT	3,051	4,808	3,194	3,297
Depreciation	103	173	200	297
Interest	538	605	1,320	1,423
Others	678	871	0	0
Operating CF	4,369	6,456	4,714	5,017
Change in WC	(1,356)	(7,138)	(4,971)	(3,076)
Direct taxes paid	(286)	616	1,054	1,088
Net operating CF	3,299	(1,297)	(1,311)	854
Investing CF	(629)	(1,456)	(1,100)	(3,500)
Free Cash Flow	2,670	(2,753)	(2,411)	(2,646)
Financing CF	197	4,183	2,337	1,502
Net Change	2,867	1,430	(74)	(1,145)
Opening Cash	6,152	9,019	10,449	10,375
Closing Cash	9,019	10,449	10,375	9,230

Key Ratios (Consolidated)

Y/E March	F 10	F 11	F 12e	F 13e
OPM (%)	11.2	11.3	13.9	12.1
ROCE(%)	23.7	25.1	15.4	13.5
Interest coverage ratio(X)	6.7	9.0	3.4	3.3
Debt/Equity(X)	1.1	1.4	1.7	1.8
Debtors Days	235	243	297	293
Inventory Days	2	4	41	43
Creditor Days	166	154	137	143

Valuation Ratios

Y/E March	F 10	F 11	F 12e	F 13e
PE	8	5	8	8
Price/BV	2.4	1.8	1.6	1.4
EV/EBITDA	4.6	3.7	5.2	5.9
Yield (%)	3.0	4.3	4.7	5.1
Market Cap/Sales	0.5	0.4	0.5	0.4

Du Pont Analysis

Y/E March	F 10	F 11	F 12e	F 13e
NPM (%)	6.6	6.8	6.3	5.3
Asset Turnover	1.8	1.8	1.1	1.1
Leverage (x)	2.4	2.8	3.0	3.1
ROE(%)	28.5	33.9	19.9	18.5

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Guide to the expected return over the next 12 months. **1=BUY** (expected to give absolute returns of 20 or more percentage points); **2=ACCUMULATE/ADD** (expected to give absolute returns between 10 to 20 percentage points); **3=REDUCE** (expected to give absolute returns between 0 to 10 percentage points); **4=SELL** (expected to give absolute negative returns)

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