

On the cusp of growth

Result Update

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Promoted by Mr.C E Fernandes and Mr. P L Mundhra, GEI Industrial Systems Ltd. (GEI) is currently engaged in design engineering and specialized manufacture of Air-cooled heat exchangers and Air-cooled heat condensers in which it has a monopoly. The products manufactured by GEI find application in Power Generations, Oil-Gas Production, Gas Processing, Oil Petroleum Refining and Petrochemicals

Rating	BUY
Target Price	200
CMP	149
Upside	35%
Sensex	18114

Key Highlights for Q1FY11

- ◆ Net sales increased by 29% YoY in Q1FY11 to Rs. 50.3 crs due to substantial increase in order book. GEI currently has order backlog of Rs. 500 crs as against Rs. 150 crore last year. The current order book comprises of orders from Power (75%) sector and Oil and Gas (25%) segment.
- ◆ GEI's operating performance was in line with EBITDA increasing by 29% YoY to Rs. 41.9 crs. Raw materials expenses increased by over 46% due to rising commodity prices. GEI's EBITDA margins deteriorated marginally to 16.8% from 17.1% in Q1FY10. The Company is undertaking various cost control measures and expects to improve the EBITDA margins by around 75 bps.
- ◆ GEI's PAT increased substantially by 50% YoY to Rs. 4.1 crs due to reduction in interest income (7%) and increase in other income (31%).
- ◆ GEI currently manufactures ~2000 bundles of fin-tubes from its current capacity. The current capacity is able to satisfy around 1000 MW order from the power sector. The Company is inhibited to undertake additional orders due to capacity constraints. Consequently, the Company is building a 4000 MW capacity to combat the exponentially growing demand from the power segment. Phase I of the expansion plan (Rs. 20 cr. investment) is completed. Phase II, with ~3000 bundles of fin-tubes capacity is expected to commission by October 2010 while Phase III (4000 bundles) is expected to conclude by March 2011. GEI is planning a Capex of Rs. 44 crs (including Rs. 20 crs for Phase I) for FY11E. This will enable GEI to undertake orders for 600 MW power plants as against its present capacity to supply 300 MW generators. GEI expects to secure orders valued at Rs. 600 crs for its condensers this year. GEI also plans to venture into EPC business through its subsidiary GEI Power.

Key Data	
Bloomberg Code	GEIN IN
Reuters Code	GEIL.BO
NSE Code	-
Current Share o/s (mn)	16.6
Diluted Share o/s (mn)	16.6
MktCap (₹bn/\$mn)	2.5/54.2
52 WK H/L (₹)	161.75/53.15
Daily Vol. (3M NSE Avg)	71392
Face Value (₹)	10
Beta	1.25
1USD/₹	46.1

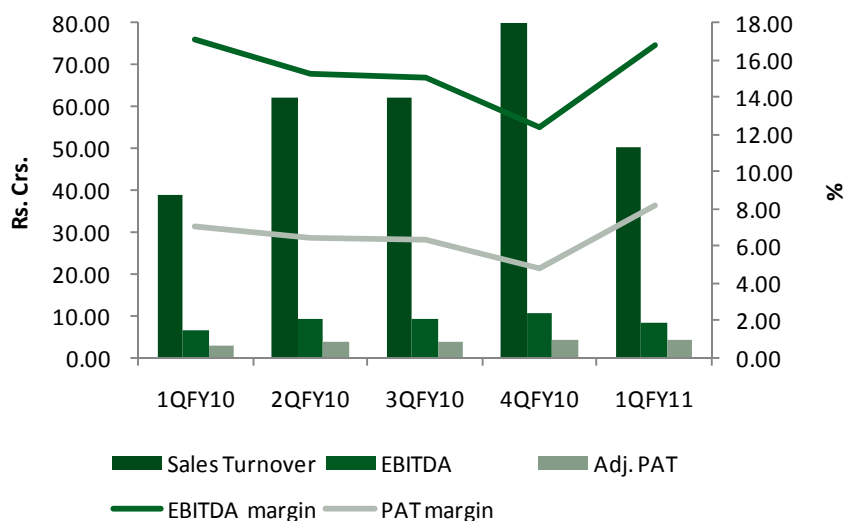
Shareholding Pattern (%)	
Promoters	41.41
FII	8.02
Others	50.49

Price Performance (%)			
	1M	6M	1yr
GEI	20.3	6.4	176.5
NIFTY	3.9	4.2	15.5

Source: Bloomberg; *As on 3RD August, 2010

Valuations

- ◆ At CMP of Rs. 149, GEI is currently trading at a PE of 6.6x FY12E EPS of Rs. 22.4. We maintain our BUY rating on the stock the price target of **Rs. 200/share** with an **upside of 35%** (9x FY12E EPS).

Exhibit 1: Overall Performance


Source: Company, Networth Research

Exhibit 4: Q1FY11 Result Highlights

(Rs. Crs.)	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	QoQ	YoY
Sales Turnover	39.07	62.13	62.23	87.65	50.33	(42.58)	28.83
<i>Growth</i>		<i>59.03</i>	<i>0.16</i>	<i>40.85</i>	<i>(42.58)</i>	-	-
Total Operating Expenses	32.38	52.66	52.88	76.79	41.87	(45.47)	29.31
EBITDA	6.69	9.47	9.35	10.86	8.46	(22.13)	26.50
<i>EBITDA margin</i>	<i>17.11</i>	<i>15.24</i>	<i>15.02</i>	<i>12.39</i>	<i>16.80</i>	-	-
<i>Growth</i>		<i>(10.93)</i>	<i>(1.43)</i>	<i>(17.54)</i>	<i>35.61</i>	-	-
Other Income	0.19	0.00	0.00	0.20	0.25	22.50	31.44
Interest	2.88	2.86	2.86	3.32	2.69	(19.07)	(6.79)
Depreciation	0.46	0.46	0.56	0.55	0.52	(6.38)	12.70
EBT	3.53	6.15	5.93	7.19	5.50	(23.51)	55.70
Exceptional items written off	0.00	(0.28)	(0.06)	(0.07)	0.00	-	-
EBT excl. exceptional items	3.53	5.87	5.87	7.12	5.50	(22.75)	55.70
<i>EBITmargin</i>	<i>9.04</i>	<i>9.45</i>	<i>9.43</i>	<i>8.12</i>	<i>10.93</i>	-	-
Tax Expenses	0.78	1.85	1.95	2.94	1.37	(53.23)	76.24
Adj. PAT	2.75	4.02	3.92	4.18	4.12	(1.31)	49.88
<i>PAT margin</i>	<i>7.04</i>	<i>6.47</i>	<i>6.30</i>	<i>4.77</i>	<i>8.19</i>	-	-
<i>Growth</i>		<i>46.09</i>	<i>(2.49)</i>	<i>6.61</i>	<i>(1.31)</i>	-	-
Extraordinary Items	0.00	0.00	0.00	0.00	0.00	-	-
Rep. PAT	2.75	4.02	3.92	4.18	4.12	(1.31)	49.88

Source: Company, Networth Research

Financial Summary

Income Statement					
(Rs.Crs)					
Y/E March	FY08	FY09	FY10E	FY11E	FY12E
Net Sales	186.75	213.49	250.80	297.63	408.17
Growth (%)	72.42	14.32	17.48	18.67	37.14
Less Operating Expenses	158.95	184.22	214.71	250.22	342.59
EBITDA	27.80	29.27	36.09	47.40	65.58
Growth (%)	74.33	5.29	23.30	31.35	38.35
Other Income	0.41	1.05	0.67	1.90	2.00
Interest	6.87	11.27	11.92	12.35	12.96
Depreciation	1.61	1.81	2.03	4.04	5.39
PBT	16.88	17.22	22.81	32.91	49.23
Less: Taxes	6.09	6.74	7.52	11.86	17.24
Adjusted PAT	10.79	10.48	15.29	21.05	31.98
Growth (%)	106.87	-2.87	45.89	37.66	51.93
Less: Exception Items	1.82	0.00	-0.41	0.00	0.00
Reported PAT	8.98	10.48	14.89	21.05	31.98

Ratios					
Y/E March	FY08	FY09	FY10E	FY11E	FY12E
Return Ratios (%)					
ROE	16.12	13.85	15.25	14.23	14.62
ROCE	21.87	17.98	16.33	15.54	18.77
EBITDA margins	14.89	13.71	14.39	15.93	16.07
PBT margins	9.04	8.06	9.10	11.06	12.06
Adj. PAT margins	5.78	4.91	6.10	7.07	7.84
Balance sheet Ratio					
LT. Debt/Equity	0.67	0.85	0.77	0.55	0.39
Total Debt/Equity	0.50	0.90	0.80	0.50	0.40
Debt/Capital	0.39	0.45	0.43	0.35	0.27
Turnover Ratios					
Asset Turnover	1.84	1.66	1.50	1.43	1.48
Inventory Turnover	3.69	2.47	2.60	2.75	2.75
Inventory Payable (Days)	99.02	147.78	140.32	132.73	132.70
Debtors Turnover	3.07	3.39	3.60	2.82	2.83
Debtors Receivable (Days)	118.76	107.81	101.50	129.23	129.20
Payables Turnover	3.42	2.70	3.06	2.46	2.53
Payables (Days)	106.83	135.15	119.31	148.08	144.49
Working Capital Cycle (Days)	110.94	120.45	122.51	113.89	117.41
Per share data					
EPS	7.56	7.34	10.71	14.75	22.40
BV/PS	80.34	100.33	126.36	163.13	216.28
Cash/PS	5.21	8.67	15.57	25.23	26.59
Sales/PS	130.82	149.56	175.70	208.50	285.94

Balance Sheet					
(Rs.Crs)					
Y/E March	FY08	FY09	FY10E	FY11E	FY12E
SOURCES OF FUND					
Shareholder's Funds	66.96	75.68	100.28	147.93	218.75
Loans	44.57	64.29	76.85	80.69	84.73
Deferred Tax Liability (Net)	3.15	3.25	3.25	4.25	5.25
Total	114.68	143.22	180.38	232.87	308.73
APPLICATION OF FUNDS					
Fixed Assets	37.95	42.00	54.56	80.81	108.73
Investments	1.29	2.03	2.04	2.00	2.00
Current Assets, Loans and Advances					
a) Inventories	50.66	86.44	96.42	108.23	148.40
b) Sundry Debtors	60.76	63.06	69.74	105.38	144.48
c) Cash and balances	7.44	12.37	22.22	36.02	37.95
d) Loans and advances	11.00	15.84	16.60	18.98	26.03
Current Liabilities & Provisions	54.66	79.05	81.98	120.74	161.58
Net Current Assets	75.20	98.66	123.00	147.86	195.27
Miscellaneous Expenditure	0.24	0.53	0.78	2.19	2.73
Total	114.68	143.22	180.38	232.87	308.73

Cash Flow Statement					
(Rs. Crs)					
Y/E March	FY08	FY09	FY10E	FY11E	FY12E
Cash & Cash Eq.at Beg of the yr	8.92	7.44	12.37	22.22	36.02
Net Cash from Oper. Act.	0.20	1.54	13.83	41.83	34.26
Net Cash Used in Invest. Act.	(5.15)	(6.20)	(16.30)	(26.25)	(27.92)
Net Cash Used in Fin. Act.	3.47	10.33	12.32	(1.77)	(4.41)
Net Inc/(Dec)in Cash & Cash Eq.	(1.49)	4.92	9.85	13.80	1.93
Cash & Cash Eq .at end of the yr	7.44	12.37	22.22	36.02	37.95

Source: Company, Networth Research

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Buy: Upside by >15, **Accumulate:** Upside by +5 to 15, **Hold:** Upside/Downside by -5 to +5, **Reduce:** Downside by 5 to 15, **Sell:** Downside by >15

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