Prabhudas Lilladher

BGR Energy Systems

Conference Call Update

Company Update

September 19, 2008

Rating	**Not Rated**
Price	Rs268
Target Price	NA
Implied Upside	NA
Sensex	13,316

(Prices as on September 18, 2008)

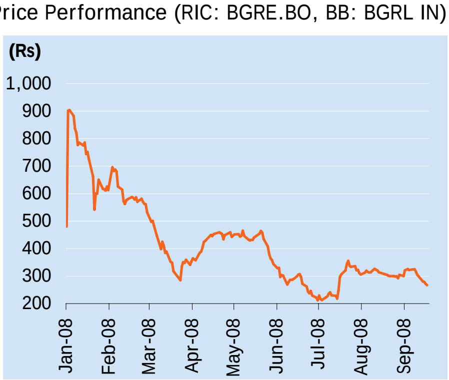
Trading Data	
Market Cap. (Rs bn)	19.3
Shares o/s (m)	72.0
Free Float	18.7%
3M Avg. Daily Vol ('000)	221.9
3M Avg. Daily Value (Rs m)	66.8

Major Shareholders	
Promoters	81.3%
Foreign	2.9%
Domestic Inst.	4.2%
Public & Others	11.6%

Stock Performance

(%)	1M	6M	12M
Absolute	(8.2)	(11.6)	NA
Relative	(3.8)	(4.4)	NA

Price Performance (RIC: BGRE.BO, BB: BGRL IN)



Source: Bloomberg

- **Company description:** Incorporated in 1985, BGR Energy (BGR) conducts its business under two main segments, turnkey engineering projects (TEP) and equipment & systems. In FY08, both these segments accounted for 85% and 15% of sales, respectively.

- **Strong order book:** BGR has a current order book of Rs~110bn which is executable over three and a half years. This order book is 7.3x FY08 sales and 95% of the order book is from the TEP segment. The TEP segment order book includes two large EPC orders of Rs~80bn that were won recently from the SEB's in Rajasthan and Tamil Nadu.

- **Key financials:** During FY05-08, BGR has reported revenue CAGR of 93% and PAT CAGR of 110%. The company's revenue has increased by 190% in FY08 to Rs15bn (FY07 annualised). This phenomenal growth was supported by a 250% increase in the TEP revenue during the year. EBITDA margins stood at 10.2% in FY08, a drop of 100bps YoY. This drop in margins was mainly due to a higher contribution from TEP, which has a lower margin than the equipment & systems segment. PAT increased by 238% YoY to Rs885m in FY08.

- **Valuation:** At CMP of Rs268, the stock trades at 15.7x FY09E and 9.9x FY10E based on first-cut earning estimate. We believe that BGR's topline growth is limited only by the speed of execution and not by the speed of new order inflows. To ensure robust topline growth while maintaining margins, execution would be paramount in terms of both, managing manpower and resources. Any tie-up on the BTG front will be a positive trigger and will cement BGR's position as a full-fledged EPC contractor.

Key financials (Y/e March)	FY07*	FY08	FY09E	FY10E
Revenues (Rs m)	7,868	15,205	23,226	36,201
Growth (%)	*166.0%*	*189.9%*	*52.8%*	*55.9%*
EBITDA (Rs m)	882	1,553	2,219	3,499
PAT (Rs m)	400	885	1,229	1,955
EPS (Rs)	5.6	12.3	17.1	27.2
Growth (%)	*195.3*	*204.4*	*38.9*	*59.1*
Net DPS (Rs)	0.5	2.0	2.6	4.1

Source: Company Data; PL Research ** 18 months* *Note: All Estimates are First Cut*

Profitability & valuation	FY07*	FY08	FY09E	FY10E
EBITDA margin (%)	*11.2*	*10.2*	*9.6*	*9.7*
RoE (%)	*63.9*	*31.8*	*23.4*	*29.6*
RoCE (%)	*34.4*	*23.0*	*20.1*	*24.6*
EV / sales (x)	2.6	1.4	1.0	0.7
EV / EBITDA (x)	23.6	13.7	10.8	7.6
PE (x)	43.3	21.8	15.7	9.9
P / BV (x)	20.9	4.1	3.3	2.6
Net dividend yield (%)	*0.2*	*0.7*	*0.8*	*1.3*

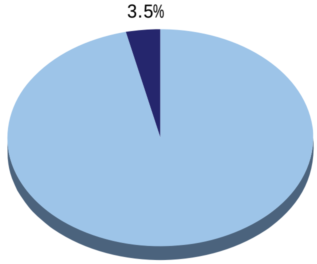
Source: Company Data; PL Research ** 18 months* *Note: All Estimates are First Cut*

Apurva Patel
ApurvaPatel@PLIndia.com
+91-22-6632 2257

Order book grows rapidly due to large EPC orders

BGR has successfully transformed itself from an equipment manufacturer to a BOP contractor. Currently, the company has made serious inroads into EPC for large-sized power plants. BGR has a current order book of Rs110bn, which is 7.3x FY08 sales. Power segment accounts for close to 95% of this order book. This order book includes two large EPC orders from the TEP segment; one from Tamil Nadu Electricity Board (TNEB) for complete EPC of 1x600mw thermal power plant for Rs31bn, the second large order is from Rajasthan Vidyut Utpadan Nigam Ltd (RVUNL) for complete EPC of 2x600mw thermal power plant for Rs49bn. The order book is executable over the next three and a half years. The company is planning to bid for another Rs200bn worth of orders and is confident of wining a considerable amount of orders in the next few months.

Order book break-up



Source: Company Data, PL Research

Major orders (Rs m)

Division	Order details	Amount
Power Projects	RRVUNL -2 X 600 MW Thermal Power Plant, Jalawar Rajasthan	49,000
Power Projects	TNEB - 1 X 600 MW Thermal Power Plant, Mettur	31,000
Power Projects	APGENCO - 500 MW Kothagudem Thermal Power Station,(BOP)	7,930
Oil & Gas Equipment	KORMOR Gas Field Development Project, Iraq	3,447
Oil & Gas Equipment	New Aumara Oil Products Depot Iraq -Oil Products Storage Tanks	393
Electrical Projects	NPCIL A/c BHAVINI , Kalpakkam - Power Distribution System	255
Electrical Projects	TNEB - Optical Power Ground Wire Cables and Optical Line Termination Equipments	197
Air Fin Cooler	ESSAR India - Air Cooled Heat Exchanger	396

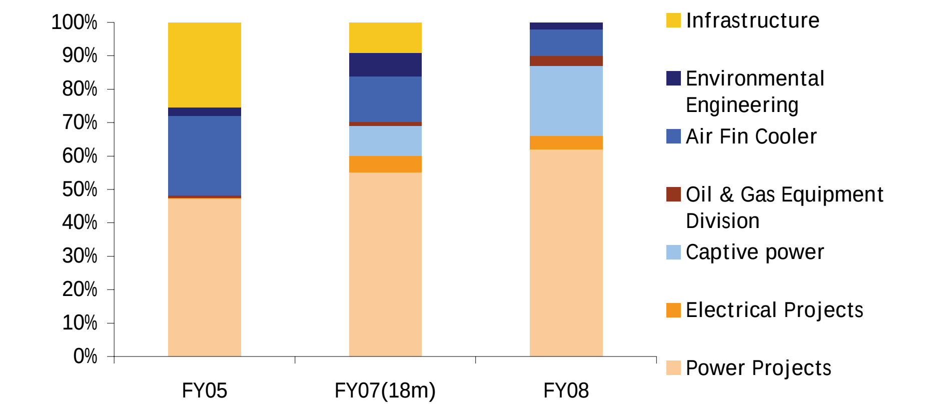
Source: Company Data, PL Research

The promoters are currently in the process of setting up a power plant of 2x660mw in Cuddalore, Tamil Nadu. They have signed a PPA with TNEB for 30 years; the environmental clearances and fuel linkage are in place as well. BGR could be in a position to get the EPC contract for this power plant once the financial closure is completed. The current order book and order pipeline puts BGR in a position where the speed of execution would decide their growth over the next two years rather than the speed of new order inflows.

TEP to be the growth driver

BGR's revenue has increased by 190% in FY08 to Rs15bn (annualized FY07 revenue which was an 18-month year, as the financial year end was changed to March from September) This growth was primarily driven by an increase of 250% in TEP income in FY08, as compared to a 57% growth in the equipments and services segment during the same year. The contribution of the TEP segment to sales has increased from 48% in FY05 to 87% in FY08. This increase in TEP income is mainly due to several decent-sized BOP contracts executed during FY05-08. Keeping in mind that more than Rs100bn or 95% of the current order book is towards the TEP business, we feel that the current mix should be maintained.

Revenue break-up



Source: Company Data, PL Research

Moving from a BOP player to a full fledged EPC player

BGR is currently executing 4x500mw BOP contracts. More than 45-50% of the BOP equipment requirements, including ash-handling equipment, coal-handling equipment, chimneys, cooling towers etc. are sourced internally.

BGR has recently bagged two large EPC orders; BTG orders for the same have been placed with Dongfang. In order to become a full-fledged EPC player, BGR has been talking to BTG equipment manufacturers for a possible technological tie-up or JV to enter the BTG space. Although competition in the BTG space is set to intensify, not only from the Chinese manufacturers but also from various Indian manufacturers, owing to the government's preference for domestic manufacturers and BGR's track record, we expect that BGR's entry into this space could help it corner some large EPC orders. Also, BGR would become a full fledged EPC contractor, with both contracting and equipment manufacturing capabilities.

Domestic competition in BTG

	Capacity (mw)	Investment (Rs m)
BHEL	20,000(by 2012)	100,000
Larsen & toubro - Mitsubhishi	4,000	15,000
Reliance infra - Shanghai Electirc	More than 10,000	130,000
Thermax - Babcock	3,000	5,000
JSW- Toshiba	3,000	11,000

Source: Industry, PL Research

Key risks

Execution risk: BGR's order book has increased from Rs30bn to Rs110bn in the past few months. This includes two large power EPC contracts of Rs~80bn in total. Although BGR has executed several BOP contracts in the past, the execution risk presented by these two projects is much larger in terms of manpower requirement, supply chain management and overall project management.

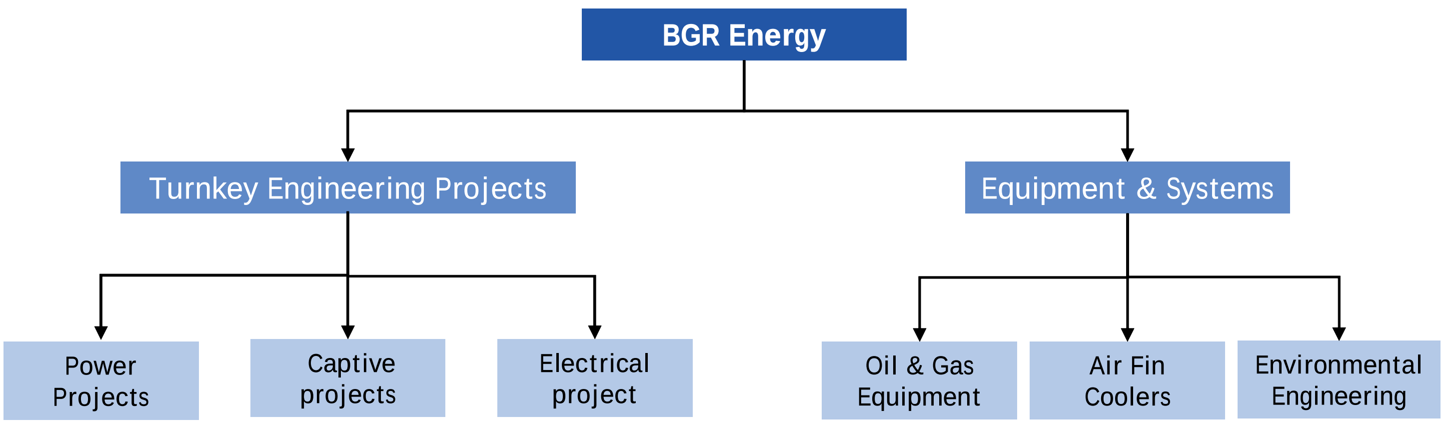
Margin pressure: BGR could have under-cut price to win the TNEB and RVUNL contracts. Moreover these contracts are covered for variation in forex, taxes and duties and not for raw materials and other equipments. Although 40-50% of equipment and raw material requirement could have been ordered back-to-back, the remaining requirement would be susceptible to volatility in the raw material prices.

Working-capital intensive: EPC business is a highly working-capital intensive business. The working capital loan has more than doubled in FY08 to Rs4.8bn from Rs2.2bn in FY07. Due to BGR's high reliance on debt to fund its working capital, any mismanagement of the working capital would have a direct impact on its interest cost and overall profitability.

Company Description

Incorporated in 1985, BGR Energy (formerly known as GEA Energy Systems (I) Ltd) was originally promoted as a JV with GEA Eneregietechnik GmbH by Mr. B. G. Raghupathy, to manufacture and sell on-line condenser tube cleaning system. He has a degree in Chemistry and has more than 33 years of experience in marketing sales and management. The company presently conducts its business under two main segments, TEP and equipment & systems.

Business segments



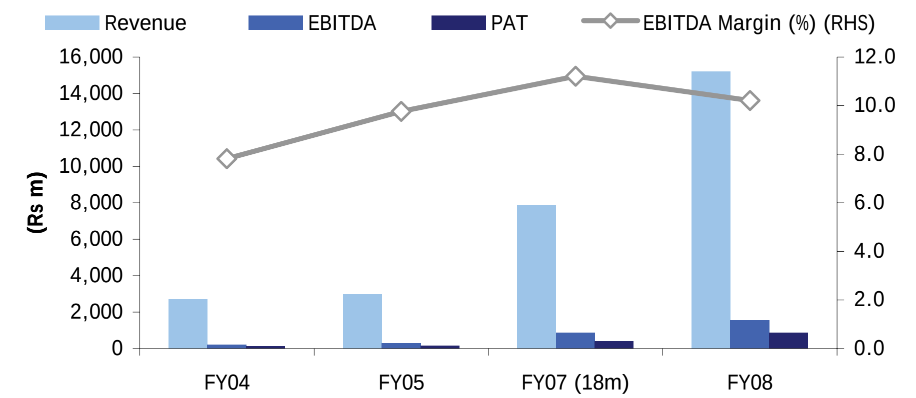
Source: Company Data, PL Research

The TEP segment engineers, manufactures, procures, constructs and commissions projects in the power industry. The company predominantly undertakes BOP contracts for power generation projects, but has currently started focusing on EPC contracts. Under this contract, it would design, engineer and supply all equipments required in a power plant including boiler, turbine and generator and also undertake civil work. On the other hand, the equipment and systems segment designs, engineers, manufactures and services a range of equipment and systems for power, oil and gas, refinery, petrochemical and process industries.

Financials and Outlook

During FY05-08, BGR has reported revenue CAGR of 93% and PAT CAGR of 110%. BGR's revenue has increased by 190% in FY08 to Rs15bn (annualized FY07 revenue which was an 18-month year, as the financial year end was changed to March from September). This phenomenal growth in FY08 was supported by a 250% increase in the TEP income during the year. EBITDA margins stood at 10.2% in FY08, a drop of 100bps YoY. This drop in margins is mainly due to higher contribution of TEP which has a lower margin than the equipment and systems segment. PAT increased by 238% YoY to Rs885m in FY08.

Key financial indicators



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Financials

Income Statement (Rs m)

Y/e March	2007 (18M)	2008A	2009E	2010E
Net Revenue	**7,868**	**15,205**	**23,226**	**36,201**
YoY Growth (%)	*166.0*	*93.3*	*52.8*	*55.9*
Raw material Consumed	6,281	12,710	19,580	30,590
% of Net Sales	*79.8*	*83.6*	*84.3*	*84.5*
Employee Costs	328	450	674	1,050
% of Net Sales	*4.2*	*3.0*	*2.9*	*2.9*
Other Costs	377	491	720	1,086
% of Net Sales	*4.8*	*3.2*	*3.1*	*3.0*
Cost of Goods Sold	6,986	13,652	20,973	32,726
% of Net Sales	*88.8*	*89.8*	*90.3*	*90.4*
EBITDA	**882**	**1,553**	**2,219**	**3,499**
Margin (%)	*11.2*	*10.2*	*9.6*	*9.7*
Depreciation	89	55	66	86
Other Income	3	52	78	84
EBIT	**797**	**1,550**	**2,231**	**3,497**
Interest	180	254	369	535
PBT	**617**	**1,296**	**1,862**	**2,962**
Total tax	213	411	633	1,007
Tax rate (%)	*34.5%*	*31.7%*	*34.0%*	*34.0%*
PAT	**404**	**885**	**1,229**	**1,955**
Extraordinary Gain/(Loss)	4	-	-	-
Adjusted PAT	**400**	**885**	**1,229**	**1,955**

Source: Company Data, PL Research *Note: All Estimates are First Cut*

Balance Sheet (Rs m)

Y/e March	2007 (18M)	2008A	2009E	2010E
Sources of Fund				
Share Capital	108	720	720	720
Reserves & Surplus	721	4,017	5,062	6,724
Total Shareholders Equity	829	4,737	5,782	7,444
Total Debt	2,464	5,027	5,900	8,555
Deferred Tax Liab. (net)		356	356	356
Minority interest	15	27	27	27
Total	**3,309**	**10,147**	**12,065**	**16,381**
Application of Fund				
Gross Block	633	734	1,095	1,645
Depreciation	249	206	273	359
Net Block	384	527	822	1,285
Capital Work in Progress	30	11		
Investments	3	1,514	840	100
Good will	5	6	6	6
Current Assets				
Inventories	295	150	299	449
Accounts Receivables	3,688	7,360	11,776	18,136
Cash & Cash Equivalent	929	3,070	1,260	1,097
Loans and Advances	879	2,663	3,994	5,592
Other Current Assets	40	86	86	86
Total Current Assets	5,832	13,329	17,416	25,359
Current Liabilities				
Accounts Payable	2,555	4,482	6,140	9,333
Provisions	276	402	523	680
Other	115	356	356	356
Total Current Liabilities	2,945	5,240	7,019	10,369
Net Current Assets	2,887	8,089	10,397	14,990
Total	**3,309**	**10,147**	**12,065**	**16,382**

Source: Company Data, PL Research *Note: All Estimates are First Cut*

Prabhudas Lilladher Pvt. Ltd.
3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India.
Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

PL's Recommendation Nomenclature

BUY	:	Over 15% Outperformance to Sensex over 12-months	**Accumulate**	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months	**Sell**	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month	**Trading Sell**	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock	**Under Review (UR)**	:	Rating likely to change shortly

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