



Research



RESEARCH:: COMPANY: GEI INDUSTRIAL SYSTEM LIMITED

18th May 2010

Long Term Buy

CMP	Rs 129.5
Target price	Rs 170
Estimated EPS	Rs 11
Projected PE	14.25-15
Investment period	6-12 months

Stock Info (TTM Basis)

Sector	Engineering
Market cap (Rs Cr)	215.29
Face value	10
Book value	53.94
EPS	8.94
Cash EPS	10.41
Dividend	10%
Sales Growth	18.9%
Debt to equity	0.93
52 week H/L	148/35.8
Avg. Daily Vol (2wk)	120000
Chairman	CE Fernandes
Incorporation	1993
Listed At	BSE
Equity capital	16.62

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GEI Industrial Systems Ltd is a leader in Heat Transfer Technology .The Company specializes in design, engineering, manufacturing, installation and commissioning of extended surface heat transfer equipment and systems.

Key Highlights:

- **GEI Industrial Systems Ltd is well placed to reap rich dividends from booming power, petroleum and gas transportation sectors as India is poised to be the next refinery hub in Asia-Pacific region. Booming businesses provide clear earning visibility over next few years.**
- **The company is the market leader in Air Cooled Heat Exchangers with more than 45% market share in the Oil & Gas sector and more than 70% in Power sector.**
- **The company is planning to provide end- to- end solutions to its client, by entering into EPC work. EPC division will boost the top-line of the company. We expect the order book of the company to be benefited from the division.**
- **The reduction in interest rate by 150bps will boost the bottom-line of the company.**
- **Increased investment in the oil and power sector by the government will provide immense business opportunities to the company.**

Future Outlook (Consolidated)

At the current price of Rs 129.5, the stock is available at 17.74x of its FY09 earnings, 14.43x of its FY10E earnings and 8.9x of its FY11E earnings. We recommend BUY with a price target of Rs170, given that the company's future shows potential.

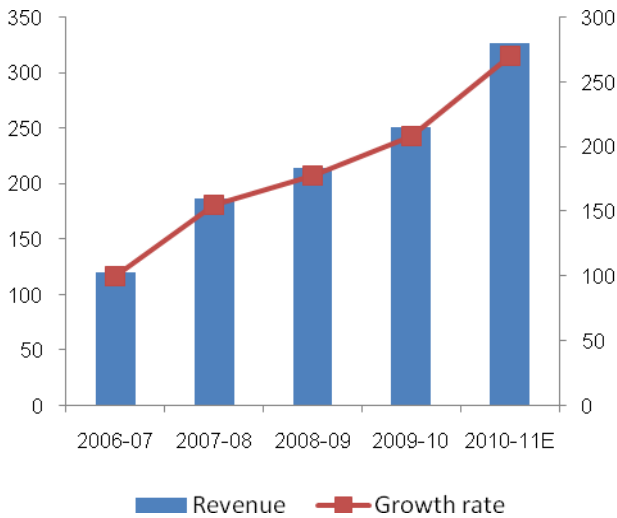
Particulars	(Cr)	FY09	FY10	FY11E*
Total Revenue		214.81	251.46	326.90
Expenditure		184.63	215.13	272.14
PBIDT		30.18	36.33	54.76
Interest		11.26	11.92	15.23
Depreciation		1.81	2.03	3.45
PBT		17.11	22.38	36.08
Tax		6.74	7.52	12.00
PAT		10.37	14.86	24.08
EPS		7.27	8.94	14.49
CEPS		8.54	10.41	16.56
OPM (%)		14.72	14.91	16.75
NPM (%)		5.06	6.1	7.37

Source: Company Reports. Fairwealth Research Estimate

KEY Concerns:

- Steep rise in raw material prices could seriously impact the profitability of the company, as the majority orders are fixed price contracts, in which passing ability of the company is nil.
- Any delay in order execution will affect the profitability of the company.
- Any downward trend in economic scenario could heavily impact the profitability of the company, as the demand for its products has strong correlation with economic growth.

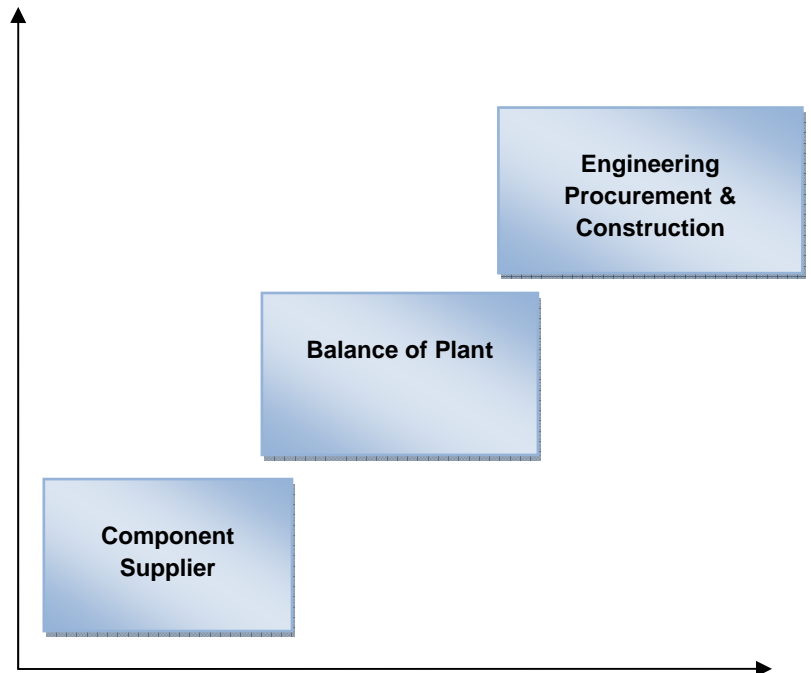
Revenue Growth Rate



Moving on Higher Path:

The company has registered a growth of 18.9% on y-o-y basis. However, the CAGR stands at 31.4% for the period beginning from 2006-07 to 2010-2011E . The base effect of 2006-07 was low at Rs 108.39cr.

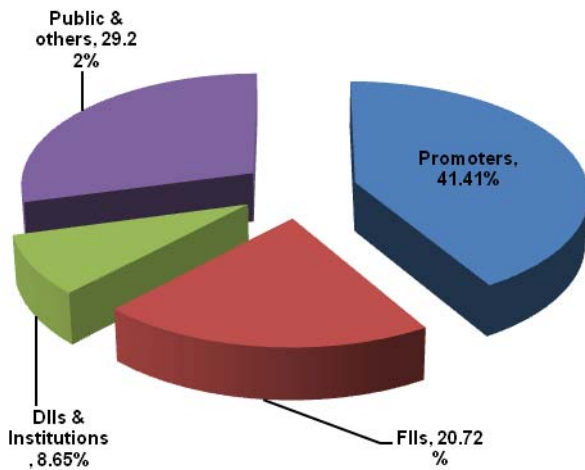
With company entering into EPC business, we expect the company to derive higher revenues. However, the margins from EPC are on lower side. We expect the company to post a 30% growth in its revenues on y-o-y basis.



GEI has acquired 100% stake in GEI power Ltd. GEIPL is setting up manufacturing facilities for 'Balance of Plant' equipment requirements of the power plants.

COMPANY PROFILE

Share Holding Pattern as on 31st Mar, 2010



The company is well placed to cater global market, as its manufacturing facilities adhere to global standards.

The promoters of GEI Industrial are Mr. C E Fernandes and Mr. P L Mundhra. The company is engaged in machining, fabrication activities and has specialised in the manufacture of air-cooled heat exchangers and finned tubes. It provides air cooled heat exchangers for crude oil refineries, petrochemical plants and LNG and CNG processing stations and air cooled vacuum steam condensing package for thermal power stations.

It has an unbeatable track record in the Oil, Gas and Power sectors with equipments installed in North and South America, Europe, Africa, Asia and Australia. The Company has been awarded ISO 9001 and ASME U Stamp accreditation.

GEI has a technical tie-up with Birwelco, UK, for design and performance guarantee of the products to be manufactured by the company. Its group companies are GEI Godavari Engineering, GEI Foods Pvt Ltd and GEI FHM Consultants. The company's unit is at Govindpura, Bhopal.

Client Profile:

Power Sector Client:

BHEL, Tata Electric Company, Davy Power Gas, Chemtex, Toyo Engineering, Shree Power, Jaypee Group, etc.

Petroleum and Oil & Gas:

HPCL, ONGC, Bharat Pumps and Compressors, IPCL, Reliance Industries, UHDE KTI, MRPL, HPCL-Mittal, Indian Oil Corporation Ltd, Cairns India Ltd.

QUARTERLY ANALYSIS:

Particulars	Mar-10	Mar-09	Var% Y-o-Y	Dec-09	Var% Q-o-Q
Net Sales	84.01	67.24	25%	61.29	37%
Add: Other Income	3.84	4.29	-10%	0.93	313%
Total Income	87.85	71.53	23%	62.22	41%
Less: Expenditure	76.86	61.49	25%	52.93	45%
PBIDT	10.99	10.04	9%	9.29	18%
Less: Interest	3.32	4.76	-30%	2.86	16%
Less: Depreciation	0.55	0.57	-4%	0.56	-2%
PBT	7.12	4.71	51%	5.87	21%
Less: Tax	2.94	3.49	-16%	1.95	51%
PAT	4.18	1.22	243%	3.92	7%
AEPS	2.52	0.85	194%	2.36	7%
ACEPS	2.85	1.25	127%	2.70	6%
OPM%	13.08	14.93		15.16	
NPM%	4.98	1.81		6.40	

- During the quarter ended 31st March, 2010, the net sales of the company witnessed a growth of 25 % (y-o-y) to Rs 84.01cr as against Rs 67.24cr during the comparable period last year, largely driven by higher realization received by the company.
- There was an appreciation of 9% in the operating profit of the company during the quarter to Rs 10.99cr as against Rs 10.04cr during the same period last year. However there was a decline of 185bps in the operating profit margins of the company. The subdued performance of operating margins was majorly on account of increase in input cost during the quarter.
- During the quarter ended 31st March, 2010, the net profit of the company witnessed a rise of 243% to Rs 4.18cr as against a low base of Rs 1.22cr, the improved performance of the bottom-line was mainly due to lower interest cost and stable depreciation cost. The interest rate of the company fell by 150bps to 11%.

HISTORICAL PERFORMANCE

Particulars (Cr)	2009-10	2008-09	2007-08	2006-07	2005-06
Net Sales	243.68	204.98	184.07	108.39	69.18
Other income	7.78	9.83	3.09	0.42	0.09
Total Income	251.46	214.81	187.16	108.81	69.27
Less: Expenditure	215.13	184.63	163.62	93.85	58.58
PBIDT	36.33	30.18	23.54	14.96	10.69
Less: Interest	11.92	11.26	6.87	4.66	4.58
PBDT	24.41	18.92	16.67	10.3	6.11
Less: Depreciation	2.03	1.81	1.61	1.47	1.48
PBT	22.38	17.11	15.06	8.83	4.63
Less: Tax	7.52	6.74	6.09	3.53	1.09
Net Profit	14.86	10.37	8.97	5.3	3.54
Less: Extraordinary items	0	-0.19	-2.81	-0.92	0
Adj. Net Profit	14.86	10.56	11.78	6.22	3.54
Equity Share capital	16.62	14.27	14.27	13.27	12.02
EPS	8.94	7.27	6.29	3.99	2.95
Cash EPS	10.41	8.54	7.41	5.10	4.18
Operating Profit Margins	14.91	14.72	12.79	13.80	15.45
Net Profit margins	6.10	5.06	4.87	4.89	5.12

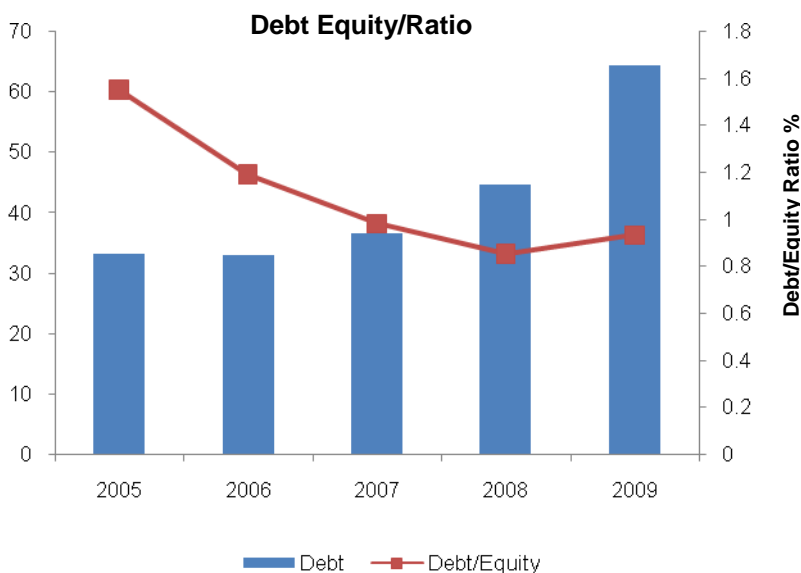
During the Financial year ended 31st March, 2010, the net sales the company witnessed an increment of 18.9% to Rs 243.68cr as against 204.98cr during the similar period last year. The improvement in sales can be attributed to strong demand from Indian energy sector along with company's diverse product range and improved production efficiency. The company derives 70% of its turnover from power sector while 30% of the revenues come from petroleum and oil & gas sector.

The operating profit of the company during the financial year 2009-10 rose by 20.4% to Rs 36.33cr as against Rs 30.18cr in the previous financial year. The improvement in the operating performance of the company was largely on account of fall in consumption of raw material by 90 bps to 63% and employee cost by 40bps to 8%.

The Net profit of the company, during the year ended 31st march, 2010, grew by 43.47% to Rs 14.86cr as against Rs 10.37cr during the same period last year. The better-than-expected bottom-line performance of the company was largely contributed by fall in effective interest rates by 150bps to 11% as against the 12.5% during the corresponding period last year. The effective tax rate of the company also witnessed a fall of 333bps to 33.6% to 37.93%.

BALANCE SHEET: GEI Industrial System (Rs Cr)

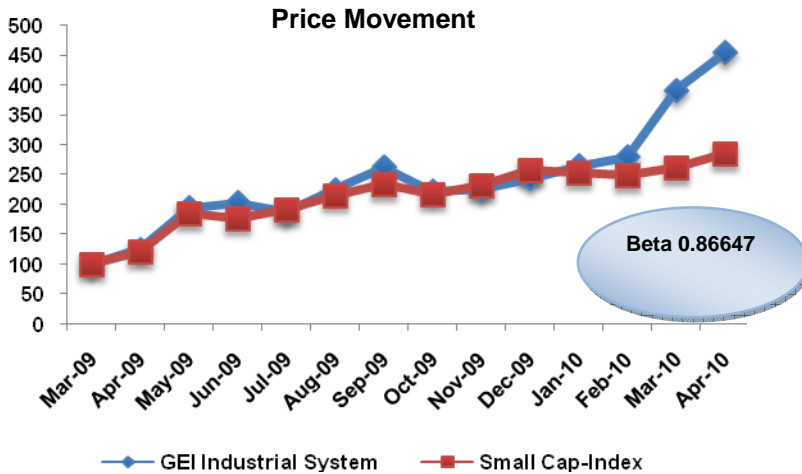
	2009	2008	2007	2006	2005
Net Worth	75.67	66.96	41.42	29.4	26.03
Loans- Term	24.03	22.7	22.09	22.55	24.53
Loans - Working Capital	40.27	21.87	14.36	10.26	8.51
Deferred Tax Liability	-3.25	-3.15	-2.15	-1.25	-0.65
Total	143.22	114.68	80.02	63.46	59.72
Net Block Including WIP	42.01	37.95	22.72	22.38	23.69
Investments	2.04	1.29	0.07	0.07	0.07
Net Working Capital	98.64	75.2	56.77	40.14	34.08
Deferred Revenue Expenses	0.53	0.24	0.46	0.87	1.88
Total	143.22	114.68	80.02	63.46	59.72



The Debt/Equity ratio of the company is continuously drooping, and is stabilizing near 0.9% of equity. The interest rate of the company has come down from 12.5% to 11%, This will reduce the interest cost burden of the company.

With further expansion plans of the company the debt/equity ratio is expected to rise further. However, with the improved profitability, the ability to service its debt is expected to improve.

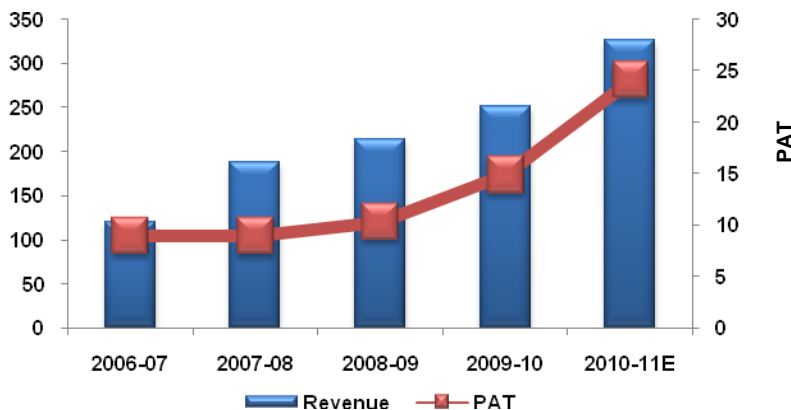
Stock Performance



The Stock price has broadly traversed in tandem with the market Index.

However, with the recent development of using more and more of Air-Cooled Heat exchanger, the stock has gained momentum and has been able to outperform the Small Cap-Index. We expect the same will continue as the country has tremendous opportunity for the same.

Revenue & PAT



With Improved order book position and better execution capability of the company, we expect the top-line of the company to grow by 30%, the effect of same will be reflected on the bottom-line numbers.

ANALYSIS & REPORT

Why to invest in shares of GEI Industrial System Limited?

Growth Drivers:

The Government of India has an ambitious mission of "Power for All By 2012". This mission would require that installed generation capacity should be at least 2,00,000 MW by 2012. There are 68,869MW of additional capacity to be added in the 11th plan period. The thermal segment is having the lion's share. GEI being driving 40% revenue from the thermal power segment will continue to be benefited for years to come.

All the refineries are currently on an expansionary mode. The requirement of Air cooled heat exchanger; a critical component finds application in refineries is mounting. As of now, there are projects worth Rs2.54trillion in the (proposed, under-implementation, announced) in the hydrocarbon sector. We expect, sustained order flow to GEI over coming 2-3 years.

COMPANY:

Market Leader:

GEI Industrial system is the market leader in Air-cooled heat exchangers and heat condensers, with over 45% market share in Oil & Gas while it has nearly 70% market share in Power sector. In India, the Company enjoys near monopoly as there is no significant player available. However, in International market few American and German players are making inroads.

Expansion Plans:

The company is planning to spend Rs 80-100cr on a new manufacturing facility, which may be the largest such facility in whole of Asia. The commissioning of this facility will make GEI a major player in global Air-cooled heat exchangers.

FUNDAMENTALS:

Capacity Expansion:

The company has nearly doubled its production capacity to over 1 million ton per annum. It has taken aggressive steps to penetrate the market with new capacity. With the increase in paper prices, company is placed well to encash on the increased capacity, which will now come into play.

Client Base:

The company works on project based model, the execution period range between 6-9 months. It provides Air-cooled heat condensers. The company has been able to build trust among its clients which is evident from repeated order wins from its existing clients.

Order Book:

The Order Book position of the company stands at Rs 450cr, which will be executed by next 12 months. The large portion of orders are from Power sector, with capacity expansion of the players involved in power and Oil & Energy sector, the order book of the company is expected to remain robust.

Notes: Figures are sourced from www.bseindia.com , capital market and annual report (2008-09).

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