

May 31, 2010

Rating	BUY
Price	Rs638
Target Price	Rs796
Implied Upside	24.8%
Sensex	16,945

(Prices as on May 31, 2010)

### Trading Data

Market Cap. (Rs bn)	45.9
Shares o/s (m)	72.0
Free Float	18.69%
3M Avg. Daily Vol ('000)	222.1
3M Avg. Daily Value (Rs m)	122.4

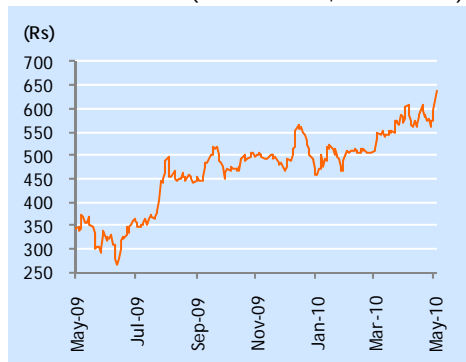
### Major Shareholders

Promoters	81.31%
Foreign	1.84%
Domestic Inst.	7.32%
Public & Others	9.53%

### Stock Performance

(%)	1M	6M	12M
Absolute	5.5	27.4	86.2
Relative	9.0	27.3	70.4

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



Source: Bloomberg

- Strong execution:** BGR Energy Systems (BGR) reported sales growth of 130% to Rs16.5bn, driven by a strong 150% growth in construction and EPC segment. The two big EPC contracts progressed smoothly and the company was able to book Rs11bn and Rs10.3bn from both these projects in FY10. The management expects ~40% revenue from these EPC projects to be booked in FY11. EBITDA margin for the quarter was down by 124bps YoY to 10.6% mainly on account of higher contribution from the EPC business which is typically a lower margin business. PAT for the quarter increased by 130% YoY to Rs1,083m on the back of higher drop of 22% YoY in the interest cost to Rs118m. The interest cost reduced as the company was able to raise buyers credit and in turn, reduce the cost of borrowing.
- Order book:** The current order book stands at Rs102.3 executable over 30 months period. Out of the current order book, 93% of the orders are from Power EPC & BOP contracts and 7% is for capital goods. The company is looking at a robust order pipe line of more than Rs350-400bn (mostly SEB's) and it is confident of bagging orders worth Rs150-200bn in the current year. The company is well placed to take few new orders in the current year as three of its projects are in the advanced stages of completion.
- Guidance:** BGR is looking at a top-line growth of 55-60% for FY11 and maintain its margins in the range of 11.5%.
- Valuation:** At the CMP of Rs638, the stock trades at 20.9x FY11E and 16.9x FY12E earnings, respectively. We believe that a strong execution in the current quarter will help reduce the fear on execution capabilities of the company. Given the strong order book of Rs102bn, expectation of timely execution and huge order pipeline makes positive on the outlook on the growth trajectory of BGR over the next 2-3 years. We upgrade the rating on the stock to 'BUY' from 'Accumulate'.

Key financials (Y/e March)	FY09	FY10E	FY11E	FY12E
Revenues (Rs m)	19,303	30,692	47,482	63,815
Growth (%)	26.9	59.0	54.7	34.4
EBITDA (Rs m)	2,089	3,435	5,474	7,245
PAT (Rs m)	1,156	2,010	3,095	4,093
EPS (Rs)	15.9	27.9	43.0	56.8
Growth (%)	14.1	38.4	22.6	23.4
Net DPS (Rs)	3.0	2.1	6.4	7.4

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	15.8	16.9	18.3	17.8
RoE (%)	26.3	29.8	29.6	29.4
RoCE (%)	26.2	29.6	29.6	29.4
EV / sales (x)	3.8	3.1	2.5	2.0
EV / EBITDA (x)	23.8	18.0	13.8	11.4
PE (x)	35.5	25.6	20.9	16.9
P / BV (x)	8.2	6.7	5.5	4.4
Net dividend yield (%)	0.2	0.2	0.2	0.2

Source: Company Data; PL Research

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## Q4FY10 Result Overview

(Rs m)

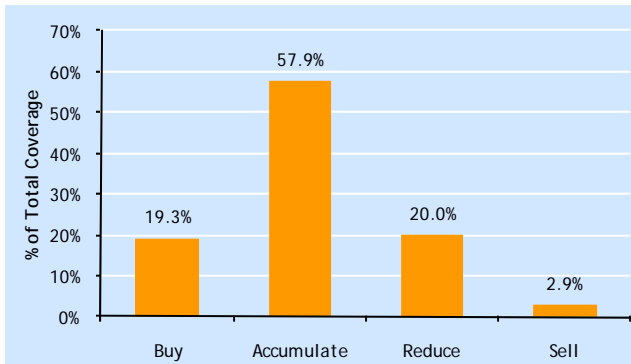
Y/e March	Q4FY10	Q4FY09	YoY gr. (%)	Q3FY10	FY10	FY09	YoY gr. (%)
Net Sales	16,571	7,183	130.7	6,351	30,692	19,221	59.7
Expenditure							
Raw Material	13,821	5,880	135.1	4,964	24,866	15,791	57.5
<i>% of Net Sales</i>	<i>83.4</i>	<i>81.9</i>		<i>78.2</i>	<i>81.0</i>	<i>82.2</i>	
Personnel Cost	475	191	149.4	317	1,248	731	70.6
<i>% of Net Sales</i>	<i>2.9</i>	<i>2.7</i>		<i>5.0</i>	<i>4.1</i>	<i>3.8</i>	
Others	550	276	99.1	356	1,143	617	85.3
<i>% of Net Sales</i>	<i>3.3</i>	<i>3.8</i>		<i>5.6</i>	<i>3.7</i>	<i>3.2</i>	
Total Expenditure	14,846	6,346	133.9	5,637	27,257	17,140	59.0
EBITDA	1,725	836	106.3	714	3,435	2,081	65.1
<i>Margin (%)</i>	<i>10.4</i>	<i>11.6</i>		<i>11.2</i>	<i>11.2</i>	<i>10.8</i>	
Other income	66	47	40.3	37	247	275	(10.2)
Depreciation	31	23	34.2	24	98	70	39.8
EBIT	1,761	861	104.6	728	3,338	2,012	65.9
Interest	118	153	(22.9)	93	539	538	0.3
PBT	1,642	707	132.2	635	5,066	1,747	189.9
Total Taxes	559	237	135.7	216	1,036	595	74.1
<i>ETR (%)</i>	<i>34.0</i>	<i>33.5</i>		<i>34.0</i>	<i>20.5</i>	<i>34.1</i>	
PAT	1,083	470	130.4	419	2,011	1,152	74.6

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### Rating Distribution of Research Coverage



### PL's Recommendation Nomenclature

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

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