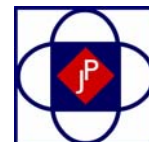


# BGR Energy Systems Ltd.



**IPO Note**



## IPO Note

Rating: SUBSCRIBE

## BGR ENERGY SYSTEMS LIMITED

"Engineering Energy"



### IPO Details

**ISSUER:** BGR ENERGY SYSTEMS LIMITED

**ISSUE SIZE:** 9.136 million Equity Shares

**PRICE BAND:** Rs. 425 TO Rs. 480

**NIB:** not less than 10%

**Retail:** not less than 30%

**QIB:** atleast 60%

**Minimum Bid:** 14 Equity shares

**OFFER PERIOD:** 05/12-12/12, 2007

**LISTING:** NSE, BSE

**BRLM:** Kotak Mahindra Capital Company Limited.

**BRLM:** SBI Capital Markets Limited.

**BRLM:** UBS Securities India Private Limited

**BRLM:** CLSA India Limited.

**Registrar:** Intime Spectrum Registry Limited.

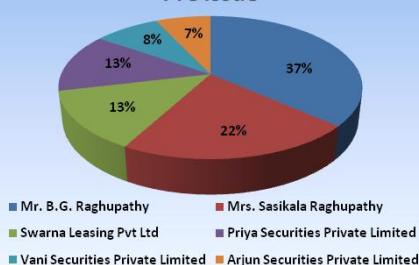
Means of finance	Rs. Cr.
Public Issue (Lower band)	388.28
Public Issue (Upper band)	438.52

### Objects of the offer:

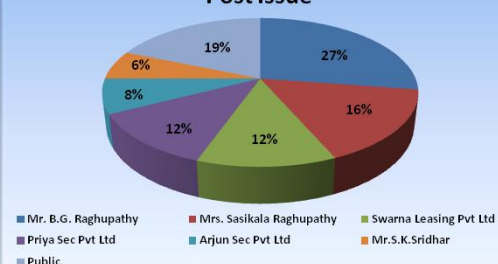
Utilization of funds	Rs. Cr.
To Augment Long Term Working Capital requirement	214.50
Establish manufacturing and assembly facilities	82.60
General Corporate Purposes	(*)

### Share Holding Pattern

#### Pre Issue



#### Post Issue



### Financial Summary:

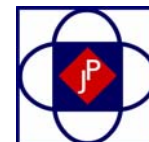
Particulars	(Rs. million)				
	Income (Rs. million)	EBITDA (Rs. million)	PAT (Rs. million)	RONW (%)	EPS (Rs.)
As on Sept. 30, 04	2,694.46	211.89	111.78	34.00	1.70
As on Sept. 30, 05	2,991.31	283.62	135.49	31.00	2.05
As on Mar. 31, 07	7,902.76	881.26	399.64	39.00	4.15

### Investment Highlights:

- BGR provides BOP services and equipment required for the construction of power plants; mainly gas and coal based power plants. The company is **currently executing projects worth Rs. 2,500 crore.**
- BGR is also present in some of the overseas markets mainly servicing clients in the field of oil and gas and power equipment. To date, it has **executed 131 contracts in 42 countries outside of India** and approximately **760 contracts in India.**
- The Company has strong clientele with client base spreading across Asia, the Middle East, Africa and Europe.
- BGR Energy has recently secured a contract for supply of Balance of Plant (BoP) equipment and Civil Works for 500 MW Khapharkheda Thermal Power Station of Maharashtra Generation Co. Ltd. (MAHAGENCO) for Rs. 998 Crores.
- ICRA has graded the **IPO at three on a scale of five** indicating average fundamentals of the company.

At the price band of Rs. 425 to Rs.480, the issue is priced expensively with the **PE of 102.40x at the lower band and 115.66x at the upper band** considering the **EPS of Rs.4.15** on its FY07 earnings. The company's peers like BHEL and ABB are currently trading at a PE of 47x and 74x respectively. However, the company has a strong order book and the company is also expected to benefit from the fast growing industry. Its order book, which is almost 6.4 times its FY07 annualized revenues, if executed over the next two-three years will provide significant top line and bottom line growth. Thus we recommend **SUBSCRIBE** to the from long term perspective.





## Diluted EPS

Year ended	EPS	Weight
As on Sept. 30, 2004	1.70	1
As on Sept. 30, 2005	2.05	2
FY 07 (Annualized)	4.15	3
Weighted Average	3.04	

## Industry P/E

Highest	74.40
Lowest	43.50
Industry Average	56.24

## RONW

Year ended	RONW (%)	Weight
As on Sept. 30, 2004	34.00	1
As on Sept. 30, 2005	31.00	2
FY 07 (Annualized)	39.00	3
Weighted Average	35.50	

## Valuations

### Peer Comparison

Company	EPS	P/E	EBITDA Margins	NAV (Rs.)	RONW
BGR Energy	4.15*	102.40-115.66	11.15	12.80	39.00%
BHEL	50.40	47.90	21.31	179.50	25.20%
ALSTOM Projects	17.20	54.60	12.32	49.50	34.60%
L&T	56.00	61.00	12.83	204.40	21.70%
Thermax	19.40	43.50	14.61	48.60	35.50%
ABB India	19.40	74.40	12.16	55.70	32.90%
Areva T&D	40.50	45.50	13.46	77.70	24.40%
Siemens	24.00	63.10	11.59	64.40	38.60%
Crompton Greaves	6.00	59.90	10.36	18.00	32.60%

\* Annualized

The PE of the company is high as compared to most of its peers which makes the issue expensive. However the RoNW of the company is high as compared to its peers and the company should try to maintain it.

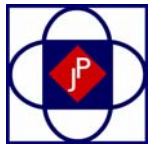
### FREE CASH FLOW TO EQUITY DISCOUNT MODEL

Free Cash Flow to Equity (FCFE) = Net Income - (Capital Expenditures - Depreciation) - (Change in Non-cash Working Capital) + (New Debt Issued - Debt Repayments)

(Rs. millions)

Free Cash Flow to Equity	As on March 31, 2007 (18 months)
Net Income	399.64
Capital Expenditure	137.28
Depreciation (Current Year)	88.80
Change in Working Capital	1156.93
Increase in Long term Debt	1575.14
<b>Free Cash Flow to Equity</b>	<b>769.37</b>

The free cash availability to the shareholders is **positive** which is a good sign and gives an indication about the good liquidity of the company in the short term as well as in medium term. However the **free cash flow available to the company is positive mainly because of the increase in long term debt**. As on March 31, 2007, about 73% of the income came from government entities. Most of the projects taken up by the company are for government and large Indian and international power, oil and gas or energy utilities. Dealing with government means delay in payments leading to higher debtors and higher working capital cycle.



### Industry Scenario

The International Energy Agency estimates that more than US\$16 trillion, or US\$550 billion a year, needs to be invested in energy-supply infrastructure worldwide over the three decades to 2030, an amount equal to 1% of projected gross domestic product. The average annual rate of investment is projected to rise from US\$455 billion in the decade 2001-2010 to US\$632 billion in the decade 2021-2030.

According to CRIS INFAC, over the next five years, Indian investment in generation capacity is expected to increase, with the central sector accounting for the largest share of such increases. CRIS INFAC expects the impact of generation delicensing in the Electricity Act will be felt largely in the period from 2002 to 2012, given the minimum three year construction period for Greenfield power projects.

The Indian government has an objective of achieving "Power for All by 2012". The development of the power sector has traditionally been the responsibility of the government through the central and state utilities, with a relatively insignificant contribution by the private sector. In order to reduce the gap between supply and demand, the Indian government formulated policies in 1991 for increasing the role of the private sector in the power sector of the country.

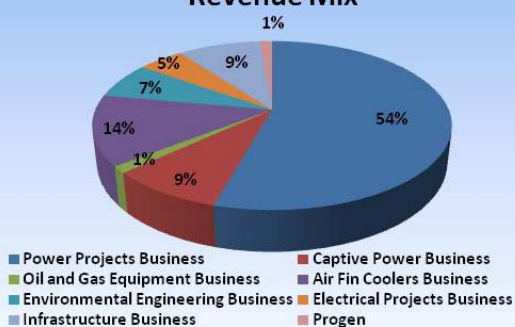
### Company Profile

The Company was originally incorporated in 1985, as a joint venture between GEA Energietechnik GmbH, Germany and the Promoter, Mr. B.G. Raghupathy, to produce and sell on-line condenser tube cleaning systems, debris filters and rubber cleaning balls used in thermal and nuclear power plants. In 1993 Mr. B.G. Raghupathy and members of his family became the sole shareholders of the Company and began to expand the range of product and services in the power and oil and gas industries.

The company has executed several BOP power projects within India, including power projects in Valuthur and Karuppur in Tamil Nadu, and Chittorgarh and Dholpur in Rajasthan. It is executing turnkey BOP coal-fired power projects in Vijayawada and Bhoopalapalli in Andhra Pradesh, both with an output capacity of 500 MW, and it is executing an EPC contract in Valuthur for a gas-based power plant with an output capacity of 92.2 MW. BGR Energy's current order backlog is Rs. 3312 million. It manufactures certain products related to its businesses through subsidiary Progen Systems and Technologies Limited ("Progen"), which has its own manufacturing facility and through its second facility controlled by its air fin coolers business. The products manufactured include heat exchangers, pressure vessels, condensers; high frequency resistance welded finned tubes, deaerators, pipeline equipment, heat recovery steam generators and various boiler components.

The company's clients are located in Asia, the Middle East, Africa and Europe. To date, it has executed 131 contracts in 42 countries outside India and approximately 760 contracts in India.

**Revenue Mix**



On June 28, 2007 the company changed name from GEA Energy System (India) Limited, to BGR Energy Systems Limited.



## STRENGTHS

- Strong order book - As on September 30, 2007 the company had a order book of Rs3,321.2 crore.
- Well positioned to capitalize on global demand in the energy and infrastructure industries with Over a period of 20 years of management expertise.
- Ability to undertake broad spectrum of power projects.
- Cost competitiveness.

## CONCERNS

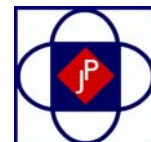
- BHEL has banned business with the company as the company had a written memorandum of understanding with M/s Techno Electric and Engineering Company Limited to form a cartel to obtain an order from BHEL at a high price.
- Significant business comes from government bodies which mean delay in payments leading to higher debtors and higher working capital cycle.

## STRATEGIES

- Focus on large BOP contracts and EPC contracts for power projects directly from power generation companies.
- Expand international businesses and operations.
- Continue to focus on the competitiveness and quality of our projects, products, services and engineering capabilities.

## FUTURE PLANS

- Develop technological collaboration and relationships in various businesses.
- The company also intends to partner with global manufacturers of boilers, turbines and generators to establish a more visible presence throughout India. This will enable them to capitalize on their past experience and bid for larger contracts.



(Rs. millions)

CASH FLOW	As on Mar. 31,07	As on Sept. 30, 05
Cash at the beginning of the year	185.03	228.79
Cash from operating activities	(462.50)	(156.88)
Cash from investing activities	(169.71)	(128.66)
Cash from financing activities	1376.20	241.79
Cash at the end of the year	929.02	185.03

## Key Ratios

Growth (%)	As on Mar. 31,07	As on Sept. 30, 05
Revenue	164.19	11.02
EBIDTA	200.14	38.57
Net Profit	194.96	21.21
Profitability (%)		
Operating Margin	11.15	9.82
PBT Margin	7.75	6.35
Net Margin	5.06	4.53
Efficiency Ratios		
Quick Ratio	0.73	0.77
Current Ratio	1.98	2.19
Leverage Ratio		
Debt /Equity	2.98	2.06

## Profit & Loss Account

(Rs.millions)

	As on June 30, 07	As on Mar. 31,07	As on Sept. 30, 05	As on Sept. 30, 04
<b>Income</b>				
Sale of Manufactured Goods	165.81	1,751.45	959.69	1,002.15
Sale of Traded goods	25.9	560.41	37.84	34.93
Contract Income	2204.54	5,556.17	1,960.06	1,669.48
<b>Total</b>	<b>2396.25</b>	<b>7,868.03</b>	<b>2,957.59</b>	<b>2,706.56</b>
Other income	6.2	2.95	-1.45	2.32
Increase (decrease) in inventory	42.76	31.78	35.17	-14.42
<b>Total Income</b>	<b>2445.21</b>	<b>7,902.76</b>	<b>2,991.31</b>	<b>2,694.46</b>
<b>Expenditure</b>				
Raw materials	1757.9	5,598.92	2,082.57	2,019.97
Staff costs	213.68	328.23	145.55	109.91
Other Manufacturing expenses	102.92	713.76	312.05	219.49
Selling & distribution expenses	4.02	24.94	12.58	7.27
General & Administration expenses	65.67	351.66	151.09	123.95
Interest	35.37	179.68	61.3	47.34
Depreciation	13.15	88.8	32.45	20.92
Miscellaneous expend written off	-	3.99	3.85	1.98
<b>Total Expenditure</b>	<b>2192.71</b>	<b>7,289.98</b>	<b>2,801.44</b>	<b>2,550.83</b>
<b>PBT</b>	<b>252.5</b>	<b>612.78</b>	<b>189.87</b>	<b>143.63</b>
Provision for taxation	77.66	213.14	54.38	31.85
<b>PAT</b>	<b>174.84</b>	<b>399.64</b>	<b>135.49</b>	<b>111.78</b>

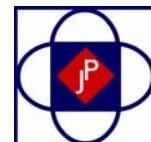
## Balance Sheet

(Rs.millions)

	As on June 30, 07	As on Mar. 31,07	As on Sept. 30, 05	As on Sept. 30, 04
<b>Assets</b>				
Fixed Assets-gross block	651.49	633.21	495.93	385.61
Less: Depreciation	218.23	249.18	165.84	140.15
<b>Net Block</b>	<b>433.26</b>	<b>384.04</b>	<b>330.09</b>	<b>245.45</b>
Capital Work in Progress	10.07	30.19	5.53	1.83
<b>Sub-total</b>	<b>443.33</b>	<b>414.23</b>	<b>335.62</b>	<b>247.28</b>
Investment	5.3	2.8	1.03	1.03
Current assets, loans and advances	6825.13	5,832.19	1,817.07	1,300.43
<b>Total Assets</b>	<b>7279.63</b>	<b>6,253.81</b>	<b>2,158.46</b>	<b>1,553.40</b>
<b>Liabilities &amp; Provisions</b>				
Secured loans	2618.33	2,404.73	831.47	505.23
Unsecured loans	59.08	59.43	57.55	56.95
<b>Sub- total</b>	<b>2677.41</b>	<b>2,464.15</b>	<b>889.02</b>	<b>562.17</b>
Current liabilities & provisions	3586.7	2,945.08	830.89	662.38
<b>Liabilities &amp; Provisions sub total</b>	<b>6285.55</b>	<b>5424.59</b>	<b>1722.25</b>	<b>1226.03</b>
<b>Net worth</b>				
Share Capital	108	108	108	108
Advance Share capital	0.9	0.9	0.9	0.9
Reserves & surplus	886.08	717.82	324.18	215.34
Reserves (Net of Revaluation Reserve)	994.08	829.21	436.21	327.36
<b>Sub Total</b>	<b>994.08</b>	<b>829.21</b>	<b>436.22</b>	<b>327.36</b>
<b>Total</b>	<b>7279.63</b>	<b>6,253.81</b>	<b>2,158.46</b>	<b>1,553.40</b>

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meet  
opportunity