



BGR Energy

BSE SENSEX 17,413	S&P CNX 5,283	CMP: INR282	TP: INR253	Neutral								
Bloomberg	BGRL IN	Year	Net Sales	PAT	EPS	EPS	P/E	P/BV	RoE	RoCE	EV/	EV/
Equity Shares (m)	72.0	End	(INR m)	(INR m)	(INR)	Gr. (%)	(X)	(X)	(%)	(%)	Sales	EBITDA
52-Week Range (INR)	378/173	03/11A	47,632	3,124	43.3	54.6	-	-	37.7	16.3	-	-
1,6,12 Rel. Perf. (%)	-9/17/-22	03/12A	34,471	2,237	31.0	-28.4	9.1	2.4	22.2	10.7	1.0	7.3
M.Cap. (INR b)	20.3	03/13E	35,162	1,522	21.1	-31.9	13.4	1.7	13.4	7.7	1.0	8.2
M.Cap. (USD b)	0.4	03/14E	41,489	1,823	25.3	19.8	11.2	1.5	14.5	8.1	1.0	8.3

- **Mixed performance in 1QFY13:** BGR Energy (BGRL) reported mixed performance for 1QFY13. Revenue declined 17% YoY to INR6.1b, significantly below our estimate. Net profit declined 33% YoY to INR335m, in line with our estimate, driven by 150bp YoY EBITDA margin expansion to 14.4% v/s our estimate of 13.1%.
- **Management cuts revenue guidance:** Revenue was lower because, of the four projects under execution, two are in the initial stages. Though both these projects are likely to pick up in the remaining part of the year, the management has cut its revenue guidance for FY13 to INR37-38b from INR47b earlier due to delayed order inflows from NTPC projects, etc.
- **Favorable product mix supports EBITDA margin:** EBITDA margin improved on account of favorable mix, driven by higher contribution from BOP contracts (at 65%) relative to EPC contracts. Currently, EPC contracts constitute ~70% of the total order book, and going forward, a large part of the incremental orders are likely to be through the EPC route, impacting margins. The management expects EBITDA margin to stabilize at 11-12% in FY13/14.
- **Excluding NTPC project awards, order inflow remains muted:** Order book as at the end of June 2012 stood at INR150b, of which INR7b are product orders and INR143b are projects. Projects include NTPC bulk tenders of INR86b (57% of total order book), INR22b of EPC and INR30b of BOP, indicating no major order inflow other than booking of NTPC projects. The management indicated that bidding pipeline stands at ~11GW for FY13.
- **Working capital remains at elevated level:** Net working capital at INR17b remains at elevated level, though slightly down from INR19b on QoQ basis. Retention money is at INR14, of which INR10b is against various projects under construction and the remaining INR4b is against three major projects that have already been completed. The management expects realization of the same by the end of FY13.
- **Cutting estimates; maintain Neutral:** We have cut our FY13 estimates by 11%, given deteriorating order inflow. We believe that the Indian power equipment market is going through a tough phase, with slowing demand and rising costs. Maintain **Neutral** rating on the stock, with a revised target price of INR253 (10x FY14E earnings).

Quarterly Performance (Standalone)

Y/E March	FY12				FY13				FY12	FY13E	(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			MOSL Est.	% Var
Sales	7,329	7,715	8,037	11,377	6,109	7,038	8,447	13,595	34,471	35,190	7,442	-18%
Change (%)	-19.2	-32.1	-36.1	-22.2	-16.6	-8.8	5.1	19.5	-27.6	2.1	1.4	
EBITDA	948	1,102	1,313	1,356	880	883	977	1,430	4,731	4,169	976	-10%
Change (%)	-8.7	-16.7	-10.8	-19.0	-7.2	-19.9	-25.6	5.4	-14.1	-11.9	1.6	
As of % Sales	12.9	14.3	16.3	11.9	14.4	12.5	11.6	10.5	13.7	11.8	13.1	
Depreciation	37	40	41	43	41	43	48	53	161	185	45	-8%
Interest	180	302	461	411	342	400	460	490	1,354	1,692	430	-20%
Other Income	13	0	0	51	0	2	2	2	53	8	2	
PBT	743	761	811	954	496	442	471	889	3,268	2,300	503	-1%
Tax	241	247	263	282	162	146	153	289	1,033	750	166	-3%
Effective Tax Rate (%)	32.4	32.5	32.4	29.6	32.6	33.0	32.5	32.5	31.6	32.6	33.0	
Reported PAT	503	514	548	672	335	296	318	600	2,235	1,550	337	-1%
Adj PAT	503	514	548	672	335	296	318	600	2,235	1,550	337	-1%
Change (%)	-17.0	-34.0	-37.4	-31.7	-33.4	-42.3	-42.0	-10.7	-31.1	-30.7	-32.9	

E: MOSL Estimates

Satyam Agarwal (AgarwalS@MotilalOswal.com); +91 22 3982 5410

Deepak Narnolia (Deepak.Narnolia@MotilalOswal.com); +91 22 3029 5126

1

Investors are advised to refer through disclosures made at the end of the Research Report.

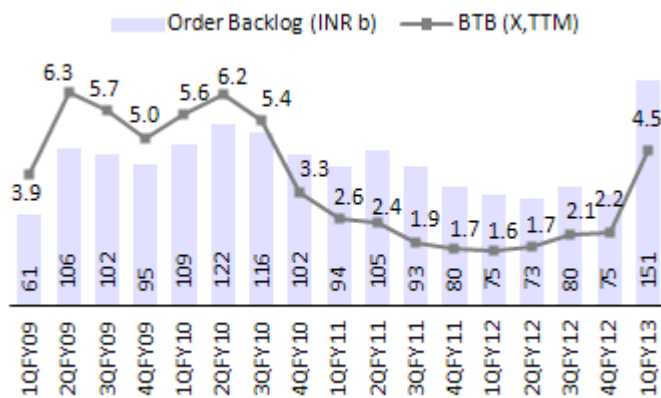
1QFY13 op-performance a mixed bag; Revenues below estimates while net profit in line on higher EBITDA margins

BGR Energy reported 1QFY13 revenues of INR6.1b (down 17% YoY) significantly below our estimates of INR7.4b. EBITDA margin stood at 14.4%, up 150bp YoY higher than our estimates of 13.1%. PAT stood at INR335m (down 33% YoY) broadly in line with our estimates of INR337m. Management stated that revenues were lower because the two major projects in the order book (Krishnapatanam project of 2x660MW worth INR22b and 3x300MW EPC project of TRN energy worth INR17b) are currently in the initial stage of execution. Both of these projects are likely to pick up gradually over the remaining part of the year and in the next financial year.

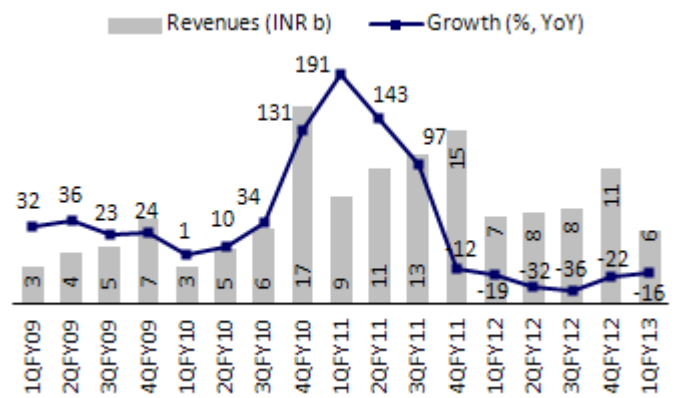
EBITDA margins up 150bp YoY on favorable product mix

EBITDA margins in 1QFY13 had improved on account of favorable mix driven by higher contribution from BOP contracts relative to EPC contracts. BOP accounted for 65% of revenues during the quarter which resulted into better margins. Currently, EPC contracts forms around 70% of the total order book, and going forward a large part of the incremental orders are expected on EPC route. Going forward revenues would be largely driven by EPC contracts which will result into a drop in margins from the current levels. We expect margins to contract in FY13 driven by ramp-up in project specific deliveries and increased share of EPC contract revenues. Management expect margins to stabilize at 11-12%.

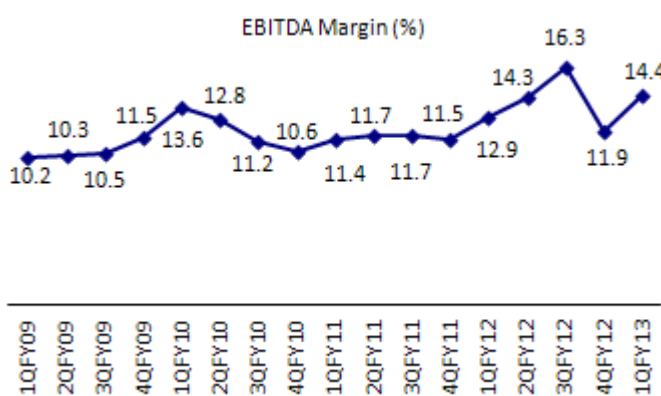
BTB ratio - improved on the back of NTPC bulk tenders



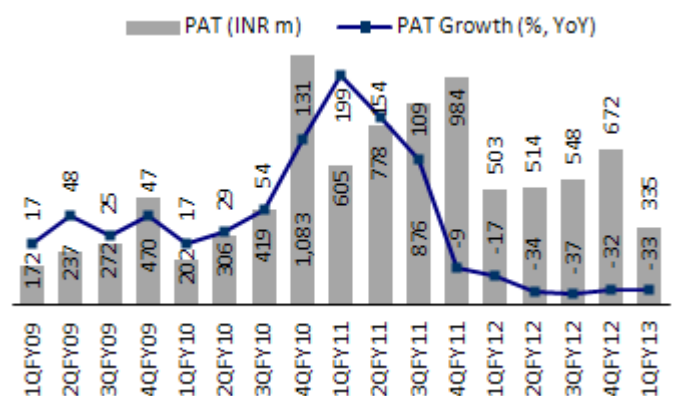
Revenue growth declining on depleting order book



Margins supported by favorable mix; likely to come down



PAT impacted by slowing sales and higher interest cost



Source: Company, MOSL

Management cuts FY13 revenue guidance

The company is executing two large EPC projects, in Rajasthan (2x600MW, INR49b) and Tamil Nadu (1 x 300, INR31b) both awarded in 2008. These projects are over 90% complete which had been driving revenue growth in recent quarters. Currently, the company is executing three major BOP projects -Mahagenco 2X500MW INR16.3b (over 70% complete), Chhattisgarh State Electricity Board 2x500MW INR16.3b (over 50% complete) and Thermal Powertech Corporation in Krishnapatnam 2x660 MW INR21.7b (15% complete). BOP order from TRN Energy 2x600MW of INR17b is in the beginning stage of execution and is also likely to pick up in the remaining part of the year. The management cut its FY13 revenue guidance to INR37-38b from INR43b earlier because of slowing order inflows. NTPC projects under bulk tenders will start contributing to revenues meaningfully in FY14 only.

Working capital remains at elevated level

Net working capital at INR17b remains at elevated level although slightly down from INR19b on QoQ basis. Retention money is at INR14 out of which INR10b is against various projects under construction and the remaining INR4b is against three major projects which have been already completed. Management expect the realization of the same by the end of FY13. Due to high debt and increased cost of borrowing, interest cost remains at a high level at INR342m, up 90% YoY. Cost of borrowing has increased to 10.5-11% v/s 6-7% last year mainly on account of reduction in low-cost buyer's credit (@ LIBOR + 1.5%) due to completion of EPC projects. Currently buyer's credit forms around 10-15% of total debt down from 35% last year.

Valuation and view

We have cut our FY13 estimates by 11% given deteriorating order inflow. We believe that the Indian power equipment market is going through a tough phase, with slowing demand and rising costs. Lack of coal linkages, volatile spot prices and several other hurdles like land availability have adversely impacted new project awards. We believe it will be challenging for BGR to secure new orders in the foreseeable future without resorting to aggressive pricing. We maintain **Neutral** rating on the stock with a revised target price of INR253, based on 10x FY14E earnings.

BGR Energy: an investment profile

Company description

BGR Energy Systems (BGR) is one of the India's growing engineering companies in the power sector. BGR carries the business in two segments namely the supply of systems and equipment and turnkey engineering project contracting. The company has entered into a JV with Hitachi to manufacture boilers and turbines.

Key investment arguments

- BGR, a strong BOP contractor, entered the power plant EPC business over the past two years. It is wellplaced to capitalize on a growing shortage of power plant contractors in India. BGR has a JV with Hitachi to make boilers and turbine-generators, which could be a huge long-term growth driver.
- The company has bagged meaningful orders in NTPC bulk tender which would drive strong revenue growth in next 3-4 years. Success in one or two EPC projects could drive strong earnings growth.

Key investment risks

- Margin compression is possible due to the entry into the super-critical BTG due to high initial import content (18-20%). Also the company has resorted to aggressive pricing in NTPC bulk tender which is likely to be a strain on profitability.

- Deteriorating working capital days in an environment of tightening liquidity remains a key balance sheet risk.

Recent developments

- BGR has already invested INR2.5b on BTG factory out of total equity investment of INR7.5b. The land have been already and construction work is expected to start soon.
- BGR has already been awarded orders for two projects (Sholapur and Meja) worth INR37b in NTPC bulk tenders. The company has received letter of intent for the Ragunathpur project while the remaining two orders for 4 units of boilers are expected in next two quarters.

Valuation and view

- We have cut our FY13 estimates by 11% given deteriorating order inflow. We believe it will be challenging for BGR to secure new orders in the foreseeable future without resorting to aggressive pricing. We maintain **Neutral** rating on the stock with a revised target price of INR253, based on 10x FY14E earnings.

Sector view

- We are Neutral on the sector.

Comparative valuations

		BGR	BHEL	L&T
P/E (x)	FY13E	13.4	8.5	13.8
	FY14E	11.2	11.0	13.5
P/BV (x)	FY13E	1.7	1.8	2.6
	FY14E	1.5	1.7	2.3
EV/Sales (x)	FY13E	1.0	1.0	1.4
	FY14E	1.0	1.1	1.3
EV/EBITDA (x)	FY13E	8.2	5.2	11.8
	FY14E	8.3	6.7	11.3

Shareholding pattern (%)

	Jun-12	Mar-12	Jun-11
Promoter	81.1	81.1	81.1
Domestic Inst	2.3	1.9	3.3
Foreign	4.7	5.2	6.9
Others	11.9	11.8	8.7

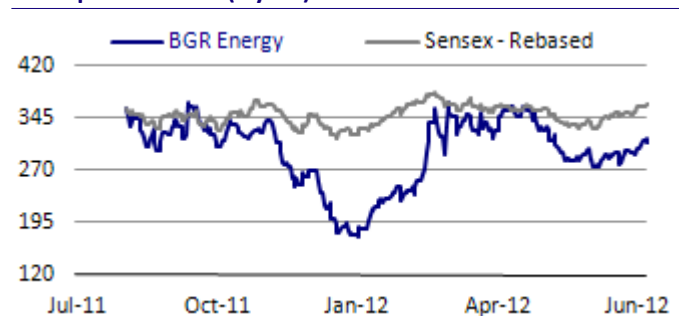
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	21.1	29.7	-28.9
FY14	25.3	33.3	-23.9

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
282	253	-10.3	Neutral

Stock performance (1 year)



Financials and Valuation

Income Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Total Income	47,632	34,471	35,162	41,489	
Change (%)	54.8	-27.6	2.0	18.0	
Raw Material Cost	39,254	26,824	27,405	32,338	
Staff Cost	1,447	1,711	2,351	2,821	
SG&A	1,537	1,203	1,265	1,493	
EBITDA	5,395	4,733	4,141	4,838	
Change (%)	54.7	-12.3	-12.5	16.8	
% of Net Sales	11.3	13.7	11.8	11.7	
Depreciation	174	161	185	219	
Interest	605	1,354	1,692	1,864	
Other Income	89	53	8	8	
PBT	4,705	3,270	2,272	2,763	
Tax	1,577	1,033	750	939	
Rate (%)	33.5	31.6	33.0	34.0	
Reported PAT	3,128	2,237	1,522	1,823	
Adjusted PAT	3,124	2,237	1,522	1,823	
Change (%)	55.0	-28.4	-31.9	19.8	

Balance Sheet		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Share Capital	722	722	722	722	
Reserves	8,798	10,424	11,357	12,422	
Net Worth	9,520	11,146	12,078	13,144	
Loans	13,373	17,450	19,724	21,697	
Differed Tax Liability	3,596	4,532	4,532	4,532	
Capital Employed	26,490	33,128	36,335	39,372	
Gross Fixed Assets	2,508	3,074	3,640	4,206	
Less: Depreciation	530	697	882	1,101	
Net Fixed Assets	1,978	2,377	2,758	3,105	
Capital WIP	862	350	350	350	
Goodwill	6	6	6	6	
Investments	5	2,359	6,046	9,667	
Curr. Assets	51,155	54,180	50,746	53,307	
Inventory	411	296	343	405	
Debtors	31,580	31,375	30,803	36,347	
Cash & Bank Balance	10,449	8,448	6,220	2,011	
Loans & Advances	8,400	7,833	7,027	7,048	
Other Current Assets	315	6,228	6,353	7,496	
Curr. Liab. & Prov.	27,516	25,915	23,572	27,063	
Creditors	16,274	13,850	14,448	17,070	
Other Liabilities	7,697	7,748	6,258	6,817	
Provisions	3,545	4,316	2,866	3,176	
Net Current Assets	23,639	28,265	27,174	26,244	
Appli. of Funds	26,490	33,128	36,335	39,372	

E: MOSL Estimates

Ratios					
Y/E March	2011	2012	2013E	2014E	
Basic (INR)					
EPS	43.3	31.0	21.1	25.3	
Growth (%)	54.6	-28.4	-31.9	19.8	
Cash EPS	45.8	33.3	23.7	28.4	
Book Value	132.2	147.6	167.8	182.5	
DPS	10.0	10.0	7.0	9.0	
Payout (incl. Div. Tax.)	27.0	37.7	38.7	41.6	
Valuation (x)					
P/E		11.4	13.4	11.2	
Cash P/E		10.6	11.9	9.9	
EV/EBITDA		7.3	8.2	8.3	
EV/Sales		1.0	1.0	1.0	
Price/Book Value		2.4	1.7	1.5	
Dividend Yield (%)		2.8	2.5	3.2	
Return Ratio					
RoE	37.7	22.2	13.4	14.5	
RoCE	16.3	10.7	7.7	8.1	

Turnover Ratios					
Debtors (Days)	242	332	320	320	
Inventory (Days)	1	1	1	1	
Creditors. (Days)	34	40	41	41	
Asset Turnover (x)	1.8	1.1	1.0	1.1	
Leverage Ratio					
Debt/Equity (x)	1.4	1.6	1.6	1.7	

Cash Flow Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
PBT bef. EO Items	4,705	3,270	2,272	2,763	
Add : Depreciation	174	161	185	219	
Interest	605	1,354	1,692	1,864	
Less : Direct taxes pa	50	97	750	939	
(Inc)/Dec in WC	-7,060	-6,627	-1,137	-3,279	
CF from Operations	-1,627	-1,939	2,263	627	
CF from Op. Incl. EO It	-1,627	-1,939	2,263	627	
(Inc)/dec in FA	-1,456	-49	-566	-566	
(Pur)/Sale of Investn	0	-2,353	-3,688	-3,621	
CF from Investments	-1,456	-2,402	-4,254	-4,187	
(Inc)/Dec in Net Wort	662	231	0	0	
(Inc)/Dec in Debt	5,299	4,077	2,274	1,972	
Less : Interest Paid	605	1,354	1,692	1,864	
Dividend Paid	842	842	590	758	
CF from Fin. Activity	4,513	2,111	-7	-650	
Inc/Dec of Cash	1,430	-2,230	-1,999	-4,209	
Add: Beginning Balar	9,019	10,449	8,219	6,221	
Closing Balance	10,449	8,219	6,221	2,011	

Disclosures

This report is for personal information of the authorized recipient and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and Motilal Oswal Securities Limited (hereinafter referred as MOST) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt MOST or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOST or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOST or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

The information contained herein is based on publicly available data or other sources believed to be reliable. While we would endeavour to update the information herein on reasonable basis, MOST and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent MOST and/or its affiliates from doing so. MOST or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This report is intended for distribution to institutional investors. Recipients who are not institutional investors should seek advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents.

MOST and/or its affiliates and/or employees may have interests/positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement

BGR Energy

- | | |
|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of MOST research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOST & its group companies to registration or licensing requirements within such jurisdictions.

For U.K.

This report is intended for distribution only to persons having professional experience in matters relating to investments as described in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (referred to as "investment professionals"). This document must not be acted on or relied on by persons who are not investment professionals. Any investment or investment activity to which this document relates is only available to investment professionals and will be engaged in only with such persons.

For U.S.

MOST is not a registered broker-dealer in the United States (U.S.) and, therefore, is not subject to U.S. rules. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., Motilal Oswal has entered into a chaperoning agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo"). Any business interaction pursuant to this report will have to be executed within the provisions of this Chaperoning agreement.

This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors.

The Research Analysts contributing to the report may not be registered/qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, Marco Polo and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.



Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025

Phone: +91 22 3982 5500 E-mail: reports@motilaloswal.com