

# BGR Energy

16 November 2011

Reuters: BGR.E.BO; Bloomberg: BGRL IN

## Yet Another Subdued Performance

BGR Energy reported 2QFY12 PAT of Rs514mn, 25.8%/21.5% lower than our/Bloomberg estimates, respectively, because of weak project execution and higher interest costs, up 118.3% YoY. Revenue fell 32.1% YoY to Rs7.7bn, 28%/25.5% below our/Bloomberg estimates, respectively. Following slowdown in project execution, delay in receipt of key orders and reduction in order inflow assumption for FY12 to Rs50bn from Rs120bn, we have cut our estimates on revenue by 21.4%/30.3%, operating profit by 11.5%/21.1% and net profit by 18.6%/31.3% for FY12/13, respectively. This will lead to 18.6%/31.3% reduction in EPS estimates for FY12/13 to Rs35.7/Rs32.3, respectively. Following declining profitability, negative free cash flow of Rs28.4bn over FY11-13E and higher D/E ratio of 2.4x in FY13E, we have downgraded the stock to Sell from Hold with a revised TP of Rs258 (from Rs376), valuing it at 8x FY13 EPS estimate of Rs32.3.

**Weak execution; revenue traction to moderate:** Order execution in 2QFY12 was partly impacted by slowdown in civil construction following heavy monsoon. We expect the revenue to remain subdued in FY12/13 as well because BGR is running out of orders to execute. Its two largest EPC orders, Mettur and Kalisindh TPP, are slated for commissioning in 2HFY12, while the recently won NTPC bulk tender II is not likely to meaningfully contribute to revenue until FY14. With only three BoP orders to contribute significantly in FY13, we expect the moderation in revenue traction to continue.

**New orders still elusive:** BGR could manage order inflow of only Rs5.67bn in 1HFY12, leading to an order book of Rs72.7bn, at 1.7x book-to-bill ratio, a far cry from 6.2x in 2QFY10. While the 4x800MW NTPC bulk tender (Rs30bn) should be awarded in 3QFY12, there is still no clarity on the Rs60bn Rajasthan EPC contract.

**Significant deterioration in working capital:** BGR has high retention money of Rs13bn (15.2% of trailing eight quarters' revenue) and as a result its receivables rose 36.2% to Rs39.3bn and even loans and advances rose 38.1% to Rs9.6bn, which led ex-cash working capital to soar 78.4% YoY against revenue fall of 26.3% YoY in 1HFY12. The sharp rise in ex-cash working capital of Rs10.4bn YoY was funded via higher incremental debt of Rs8.8bn YoY, thereby increasing standalone D/E ratio to 2.2x in 1HFY12 from 1.7x in 1HFY11.

**Negative cash flow, declining return ratios to cap valuation:** BGR is trading at P/E and EV/EBITDA of 8.7x/10.5x FY13E versus its 3-year average of 14.5x/9.2x. Following the likely sharp fall in consolidated RoE/RoCE by 20%/14.5% to 19%/9.5%, respectively, in FY13E and negative free cash flow of Rs28.4bn over FY11-13E, we downgrade the stock to Sell from Hold.

## SELL

**Sector:** Capital Goods

**CMP:** Rs281

**Target Price:** Rs258

**Downside:** 8%

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### Key Data

Current Shares O/S (mn)	72.2
Mkt Cap (Rsbn/US\$m)	20.3/399.2
52 Wk H / L (Rs)	784/279
Daily Vol. (3M NSE Avg.)	705,283

### Price Performance (%)

	1 M	6 M	1 Yr
BGR Energy	(16.6)	(43.3)	(62.3)
Nifty Index	(1.4)	(8.0)	(15.5)

Source: Bloomberg

Y/E March Standalone (Rsmn)	2QFY11	1QFY12	2QFY12	YoY (%)	QoQ (%)	1HFY11	1HFY12	YoY (%)
Net revenue	11,356	7,342	7,715	(32.1)	5.1	20,423	15,057	(26.3)
Raw material costs	9,284	5,759	5,824	(37.3)	1.1	16,643	11,582	(30.4)
Staff costs	337	341	418	24.2	22.8	663	759	14.5
Other operating expenses	412	282	371	(10.0)	31.7	756	653	(13.7)
Total expenditure	10,033	6,381	6,613	(34.1)	3.6	18,062	12,994	(28.1)
EBITDA	1,323	961	1,102	(16.7)	14.7	2,361	2,063	(12.6)
OPM (%)	11.7	13.1	14.3	263bps	120bps	11.6	13.7	214bps
Depreciation	33	37	40	22.6	7.0	64	77	20.9
EBIT	1,291	923	1,062	(17.7)	15.0	2,297	1,985	(13.6)
Interest costs	138	180	302	118.3	67.7	254	482	89.7
Other income	26	0	0	NA	NA	52	0	(99.2)
PBT	1,178	743	761	(35.4)	2.3	2,095	1,504	(28.2)
Tax	400	241	247	(38.3)	2.6	712	488	(31.5)
Net profit	778	502	514	(34.0)	2.2	1,383	1,016	(26.5)
NPM (%)	6.8	6.8	6.7	(19)bps	(19)bps	6.8	6.7	(02)bps
EPS (Rs)	10.8	7.0	7.1	(34.1)	2.2	19.2	14.1	(26.6)

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 1: Financial summary (consolidated)

Y/E Mar (Rsmn)	FY09	FY10	FY11	FY12E	FY13E
Net sales	19,303	30,734	47,498	40,142	42,835
EBITDA	2,089	3,442	5,363	5,020	4,952
Net profit	1,154	2,013	3,234	2,579	2,328
EPS (Rs)	16.0	28.0	44.8	35.7	32.3
EPS growth (%)	32.2	74.4	60.3	(20.3)	(9.7)
EBITDA margin (%)	10.8	11.2	11.3	12.5	11.6
PER (x)	17.5	10.0	6.3	7.9	8.7
P/BV (x)	3.6	2.9	2.1	1.8	1.6
EV/EBITDA (x)	10.1	5.6	4.4	7.8	10.5
RoCE (%)	17.0	22.1	24.0	14.0	9.5
RoE (%)	22.2	31.7	39.0	24.6	19.0

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Our estimates vs actuals

(Rsmn)	Actual	Nirmal Bang estimate	Deviation	Bloomberg consensus	Deviation
	2QFY12	2QFY12	(%)	2QFY12	(%)
Revenue	7,715	10,722	(28.0)	10,357	(25.5)
EBITDA	1,102	1,233	(10.6)	1,197	(7.9)
OPM (%)	14.3	11.5	278bps	11.6	273bps
PAT	514	693	(25.8)	655	(21.5)

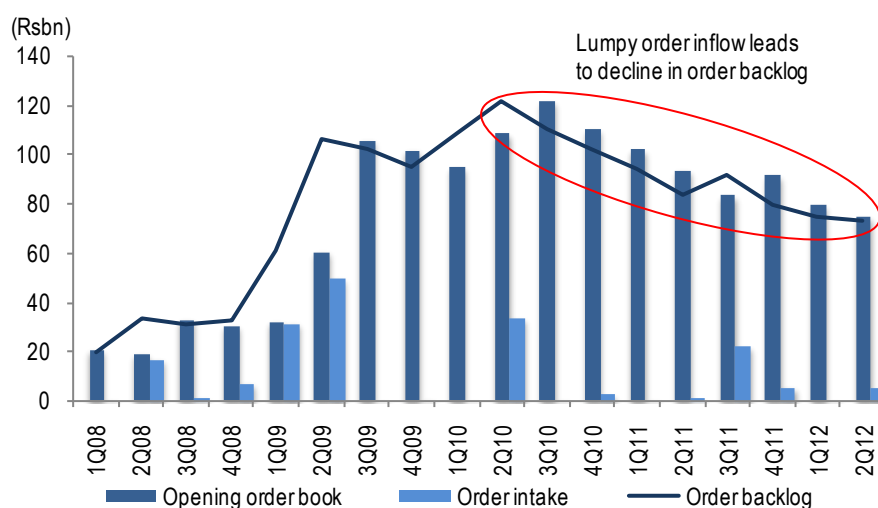
Source: Bloomberg, Nirmal Bang Institutional Equities Research

## Exhibit 3: Change in earnings estimate

Description (Rsmn)	Earlier assumption		New assumption		Change (%)	
	FY12 E	FY13E	FY12E	FY13E	FY12E	FY13E
Order intake	120,000	80,000	50,000	80,000	(58.3)	-
Net sales	51,088	61,434	40,142	42,835	(21.4)	(30.3)
EBITDA	5,675	6,275	5,020	4,952	(11.5)	(21.1)
EBITDA (%)	11.1	10.2	12.5	11.6	140bps	135bps
Adjusted PAT	3,167	3,389	2,579	2,328	(18.6)	(31.3)

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 4: Order book position (Rsbn)



Source: Company, Nirmal Bang Institutional Equities Research

## Ratings track

Date	Rating	CMP (Rs)	Target price (Rs)
5 September 2011	Hold	321	330
16 September 2011	Hold	367	376
16 November 2011	Sell	281	258

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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