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BGR Energy - Buy

BGR Energy was incorporated in 1985, as a joint venture between GEA Energietechnik GmbH, Germany and the Promoter, 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, since 1993 B. G. Raghupathy and members of his family are the sole shareholders of the Company.

The company carries on the business in two segments, the Supply of systems and Equipment and Turnkey Engineering project contracting.

In the systems and equipment business, it design, engineer, manufacture, sell and service a range of systems and equipment for the Power, Oil & Gas, Refinery, Petrochemical and Process Industries.

In the Turnkey Engineering project contracting business, it engineer, manufacture, procure, construct and commission projects in the Power and Oil & Gas sector, wherein we take Turnkey responsibility to supply of a range of equipment and services, including the civil works required for a project and other work as may be required under the contract for such project.

Management

The management of the company is led by B G Raghupathy - Chairman & Managing Director, P R Easwar Kumar - CFO, V R Mahadevan - Whole Time Director while the other directors of the company include S A Bohra M Gopalakrishna, S R Tagat, Heinrich Bohmer and Sasikala Raghupathy.

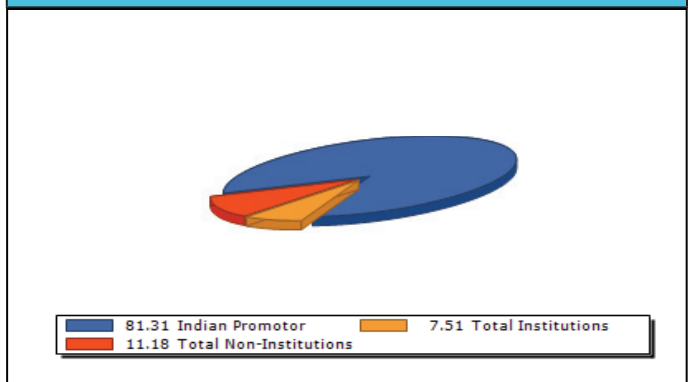
Business Overview

BGR Energy carries on the business in two segments, the Supply of systems and Equipment and Turnkey Engineering project contracting.

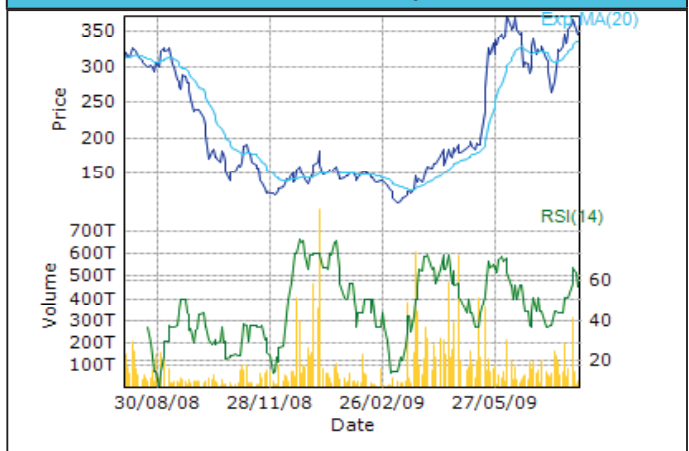
In the Turnkey Engineering project contracting business, the company engineer, manufacture, procure, construct and commission projects in the Power and Oil & Gas sector, wherein it take Turnkey responsibility to supply of a range of equipment and services, including the civil works required for

Stock Data		03/08/09
Current Mkt Price (Rs)		348.90
52 Week High		392.00
52 Week Low		107.00
Mkt Cap (Rs. in Million)		25120.80
Return in last one Month (%)		0.00

Share Holding



Performance in last one year



Y-o-Y Performance

Particulars	(Rs. in Million)		
	Mar 2008	Jun 2007	Change(%)
Net Sales	15048.34	2324.13	547.48
Other Income	44.85	0.00	0.00
Total Expenditure	13375.93	2053.11	551.50
Operating Profit	1717.26	271.02	533.63
Interest	414.55	34.53	1100.56
Profits After Tax	844.43	146.81	475.19
Reserve & Surplus	0.04	0.00	4470.93
Reported EPS(Rs)	11.73	13.59	-13.72
Core EBITDA Margin (%)	11.38	11.66	-2.44



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a project and other work as may be required under the contract for such project.

The company executes Turnkey Contracts to supply the Balance of Plant ('BOP') Equipment, Services and Civil works for Power Generation projects, in which it supply, from a single source, the Balance of the plant, i.e. items other than the Boiler, Turbine and Generator.

The Company consists of seven complementary businesses, including:

Power Projects business, which provides turnkey EPC and BOP services for coal-based Thermal Power Plants and Gas-based Combined Cycle Power Plants typically over 100 megawatts ("MW"), and which completed its first contract in 2002

Captive Power Projects business, which provides Turnkey EPC and BOP services for power plants typically under 100 MW which began operating in 2006

Oil and Gas Equipments business, which designs and manufactures gas conditioning & metering skids, storage tanks, pipeline pig launching & receiving systems, gas processing complexes and gas compressor packages related to the oil and gas industry for companies in India and abroad, and which began operating in 2001

Air Fin Coolers business, which designs and manufactures Air Fin Coolers which cool process fluids and gases used in the refining, petrochemical, and oil and gas industries, and which began operating in 1994

Environmental Engineering business, which designs manufactures and provides Deaerators, Desalination plants, Water treatment plants and Effluent treatment plants, which have application in Power and Process plants and other Industrial plants, and which began operating in 1996

Electrical Projects business, which designs supplies Electrical systems and equipment such as Gas Insulated Switchgear (GIS) substations, Optical Fiber Power Ground Wires (OPGW), Extra High Voltage substations and Transmission Lines to Power

Q-o-Q Performance			
(Rs. in Million)			
Particulars	Jun 2009	Jun 2008	Change(%)
Net Sales	3110.66	3068.32	1.38
Expenditure	2688.32	2756.71	-2.48
Other Income	67.47	40.55	66.39
EBITDA	489.81	352.16	39.09
Interest	162.62	75.53	115.31
Net Profit	202.36	172.31	17.44
EBITDA Margin (%)	0.16	0.11	37.19
NPM (%)	0.07	0.06	15.84
EPS	2.81	2.39	17.57

Profit & Loss			
(Rs. in Million)			
Particulars	Mar 2008	Jun 2007	Change(%)
Net Sales	15048.34	2324.13	547.48
Total Income	15093.18	2324.13	549.41
Total Expenditure	13375.93	2053.11	551.5
Operating Profit	1717.26	271.02	533.63
Profits After Tax	844.43	146.81	475.19

Balance Sheet			
(Rs. in Million)			
Particulars	Mar 2008	Jun 2007	Change(%)
Share Capital	720.00	108.00	566.67
Reserve & Surplus	3993.26	873.62	357.09
Total Liabilities	9726.56	3624.07	168.39
Investments	1556.54	47.80	3156.35
Current Liabilities	4848.05	3171.17	52.88
Net Current Assets	8102.50	3213.59	152.13
Total Assests	9726.56	3624.07	168.39

Key Ratios		
(Rs. in Million)		
Particulars	Mar 2008	Jun 2007
Reported EPS (Rs)	11.73	13.59
Core EBITDA Margin (%)	11.38	11.66
EBIT Margin (%)	11.04	11.15
ROA (%)	8.68	4.05
ROE (%)	17.92	14.96
ROCE (%)	17.14	7.15
Price/Book (x)	5.20	0.00
Net Sales Growth (%)	547.48	-70.02
EBIT Growth (%)	543.19	-70.36
PAT Growth (%)	475.19	-62.54
Total Debt/Mcap (%)	0.20	0.00



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Stations, Refineries and Petrochemical plants, and which began operating in 2003

Infrastructure business, which is capable of building roads and industrial buildings, and which began operating in 2004.

Latest result analysis

- The company reported a net profit of Rs 20.24 crore for the quarter ended on June 30 as against Rs 17.23 crore reported in the like period last year, a growth of 17.44%.
- The company's turnover during the period stood at Rs 311 crore as compared to Rs 306 crore in the April-June, up by marginal 1.38%.
- Other income of the company reported a huge increase of 66.39% to Rs 6.75 crore from Rs 4.06 crore in the same quarter last year.
- On the Segmental front the revenue from Capital Goods business witnessed a sharp fall of 59.38% to Rs 16.97 crore from Rs 42.25 crore in the same quarter last year.
- The revenue from the construction and EPC contracts business witnessed a gain of 11.15% to Rs 294.09 crore from Rs 264.58 crore in the corresponding previous quarter.
- Net profit margin of the company was reported to be 6.51, up from 5.62 in the same quarter last year.

Latest developments

The State Company for Oil Projects (SCOP), Ministry of Oil, Iraq, has increased the value of the contract it placed on oil and gas equipment division of BGR Energy Systems to \$80.5 million from \$76.60 million. The contract was awarded in 2006 by SCOPE, the fresh contract is for developing Akas and Al-Mansuria gas fields.

BGR Energy Systems has signed up credit lines of Rs. 3,296 crore and \$405 million to fund its working capital requirements for the execution of EPC contract for the 2 x 600 MW Kalisindh Thermal Power Project at Jhalawar of Rajasthan Rajya Vidyut Utpadan Nigam Ltd.

The company has recently secured a Turnkey EPC of Balance of Plant (BOP) contract from Maharashtra Power Generation (Mahagenco) for execution of the 2x500 MW Chandrapur Super Thermal Power Station (STPS) Expansion Project at Chandrapur, Maharashtra, valued at Rs 1,632 crore and it will be completed over 33 months.

Recommendation Factors

Having successfully executed BOP contracts, the company has begun to focus on Engineering, Procurement and Construction ('EPC') contracts, in which it Design, Engineer and Supply all of the equipment required for a Power Plant including the Boiler, Turbine and Generator and Civil works. The Company is currently executing BOP and EPC contracts tailored to customer demands.

The company's order book stands at Rs 10,881 crore comprising Rs 10,378 crore from the power sector, Rs 434 crore from oil and gas sector and Rs.69 crore of equipment business. (which is 5.7x its FY09 revenues. Recently in July the company has bagged Chandrapur BOP contract for Rs 1,632 crore for executing 2x500 MW thermal power station from Mahagenco.

The company has signed a License Agreement with US based Foster Wheeler for design, manufacturing & selling of sub critical & super critical boilers in India, this new contracts puts the company in the selective pool both manufacturing as well as EPC capabilities.

The company provides turnkey EPC and BOP services for coal-based Thermal Power Plants and Gas-based Combined Cycle Power Plants typically over 100 megawatts and with the Government of India targeting to add 78,000 MW during the XIth plan period the company will be a major beneficiary of rising power capacity addition in the country.

Attractively valued at 12.7x FY10e earnings BGR is currently trading at Rs 349 and a P/E multiple of 21.54 We recommend a BUY on the stock with a price target of Rs 464, with a short to medium term horizon.