



Investor's Delight

14th January, 2011

Company	GEI Industrial Systems Ltd. (GIS)
BSE Code	530743
FV	Rs. 10
Equity Capital (Rs in mn)	166.2
Reserves (Rs in mn)	946
Book Value	Rs. 67
Market Capitalization (Rs in mn)	3,040
CMP	Rs. 183
Target Price	Rs. 240
Upside	31%

A) About the company

Background

Originally incorporated in 1970 as GEI Industrial Systems Ltd, presently it is engaged in manufacturing of air cooled heat exchangers (ACHE) and air cooled steam condensers (ACSC) which are used in oil and gas companies and power plants respectively. Initially the company was formed as an ancillary unit of BHEL (Bharat Heavy Electricals Limited). The company is one of the leading players in the heat transfer industry (cooling media). It undertakes design, manufacture, fabrication, erection, commissioning and maintenance of the heat exchangers and condensers.

Manufacturing capabilities

It has engineering and design department located at Bhopal, for development of new and better technology for manufacturing the products. In the past, GIS had a tie up with Birwelco UK to vet its in-house developed technology. Currently, the company caters to the power plants with a generation capacity of up to 300 MW for which the technology has been developed in house.

Key clients

Segment	Players
Oil Refining	IOC, HPCL, BPCL, Reliance Petroleum, Chennai Petroleum
Power equipments	BHEL, ABB, NTPC, Alstom Projects, Siemens India
EPC contractors	L&T, Toyo in Japan, Chemtex in USA, PDO in Oman
Gas terminals	GAIL, Oil India, Petronet, Atlas Copco, Ingersoll Rand

B) Investment Rationale

1) Robust Order Book: It has an order book of ~Rs.4 bn which is executable over next 1.5 years. Out of which, ~65% of the order book is accounted by power sector. The company is on a growth trajectory in terms of order inflows from FY 08(Order book of Rs. 2.6bn). Presently, the company is constrained to take new orders because of capacity shortage. However, it is expanding its capacity to 4,000 MW by end of FY11E.



- 2) Market leader in Air based cooling:** It is the only domestic air cooled tower provider in India. As a result the company enjoys the status of monopoly. The company has established a strong presence in manufacturing of fin-tubes and other components in-house. Its potential competition is from international players like (SPX and GEA) with an insignificant presence in India. The company has no major threat in terms of competition as there is a major entry barrier in terms of technology required. The company is well accepted by players in the user industry since 2002. International players like SPX and GEA rely on single row finned tubes which are suitable to colder climate of developed markets and are not suitable for the Indian climate.
- 3) Capex to drive growth:** In FY10, the company incurred a capex of ~Rs. 200 mn in its subsidiary GEI Power Ltd. (GPL). The purpose of acquiring GEI Power Ltd. in FY10 was to focus on power segment through a separate company. It is currently in the process of transferring the production of ACSC for power plants to GPL. GEI Industrial, in addition to the capex incurred in FY10 has lined a capex of Rs. 350 mn in FY11E and Rs. 400 mn in FY12E for GPL.
- 4) Arrangements with suppliers and in house manufacturing protect margins:** It has arrangement with its suppliers, which mitigates volatility in operating margins due to changing raw material prices. In house manufacturing of finned tubes, which is a key ingredient of the final product, results in a lower operating cost, thereby boosting the operating margins for the company and giving GIS a competitive advantage over its competitors.

C) Outlook and Valuation

With due consideration to factors like a) monopoly in air based cooling, b) strong order book, c) capacity expansion on track, we recommend a 'BUY' with a target price of Rs.240 (14x at annualized H1FY11 EPS) for investors with a six months horizon.



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