21 January, 2011

Investor's Delight

Company	BGR Energy Systems
BSE Code	532930
FV	Rs. 10
Equity Capital (Rs in mn)	720
Reserves (Rs in mn)	6,312
Market Capitalization (Rs in mn)	51,810
Original Reco Price	Rs. 718
CMP	Rs. 635
Target Price	Rs. 840
Upside	32%

A) About the company

Incorporated in 1994, BGR Energy Systems is a leading company in the business of Turnkey Engineering and Contracting for Balance of Plant (BoP) and full service Engineering, Procurement and Construction (EPC) for power projects in India and LSTK contracts for oil and gas projects in India and abroad. The company designs and manufactures high technology equipments/system for power, process and infrastructure projects for world markets. Its product range includes heat exchangers, heat recovery steam generators, condensers, pressure vessels, high frequency resistance-welded finned tubes, deaerators, pipeline equipment, and various boiler components.

B) Investment Rationale

1) Strong order book, good revenue visibility

As on H1FY11, the unexecuted order book stands at Rs.105bn which provides good revenue visibility over FY10-FY12E. At the end of FY11E, management expects an order book of Rs150bn. It has a well defined strategy of targeting Independent Power Producers (IPPs) and is in talks with six IPPs for EPC and BoP contracts. The company expects to win an order in this space in the next couple of months. It recently bagged a milestone EPC order worth Rs. 21.6bn for BoP of a 2x660 MW project at Krishnapatnam, Andhra Pradesh from Thermal Powertech Corporation of India promoted by Gayatri Projects and Sembcorp, Singapore.

The company is expected to witness good order inflows in H2FY11. Bids for Rajasthan Rajya Vidyut Utpadan Nigam (RRVUNL) are expected to be finalized in H2FY11. It has also forayed in the super critical boiler, turbine – generator (BTG) market in a JV with Hitachi. As a result, the company is now eligible to bid for bulk tenders of NTPC.

2) Execution of EPC power projects on track

The company had received an EPC order of Rs. 31bn in June 2008 for 1x600MW Mettur from Tamil Nadu electricity board, to be executed over 39 months. As on H1FY11, 60% of the project work is completed.

Kalisindh (Jalawar) EPC project for 2x660MW worth Rs. 49bn received from Rajasthan Electricity Board in July 2008 (to be executed over 42 months) was 55% complete as on H1FY11.

3) Strong performance in Q2FY11

In Q2FY11, BGR witnessed strong performance. Strong execution of EPC projects resulted in YoY increase of 143% in revenues to Rs. 11.3bn with core construction and EPC contracts contributing 94.6% of revenues. Majority of the revenues were booked on Mettur BOP (Rs. 31bn), Kalisindh BOP (Rs. 49bn), Chandrapur BOP (Rs. 16bn), and Marwa BOP (Rs. 16.3bn). OPM of 11.5% was higher as compared to OPM over the previous quarters on account of better than expected sales growth. PAT witnessed a surge of 154% to Rs. 777mn on a yoy basis.

C) Outlook and Valuation

The company has a strong revenue visibility on account of its strong order book (3.4x FY10 revenues). During H1FY11, the company has improved its revenues by 162% to Rs. 20.4bn on a yoy basis whereas PAT witnessed yoy growth of 172% to touch Rs. 508mn translating into yoy EPS growth of 172% to touch Rs. 19.2. We believe the company would maintain this growth momentum and expect revenue CAGR of 38 % over FY10-12E resulting into an EPS of Rs. 48 for FY12E. With due consideration to factors like... a) strong order book, b) increasing traction in EPC Space, c) improved execution, d) good revenue visibility, we recommend a 'BUY' with a target price of Rs. 840(17.1x FY12E EPS) for investors with a three months horizon.

29th December, 2010