

REDUCE

BGR Energy Systems

Target Price (INR)

209

Earnings pressures and risks persist

RATING



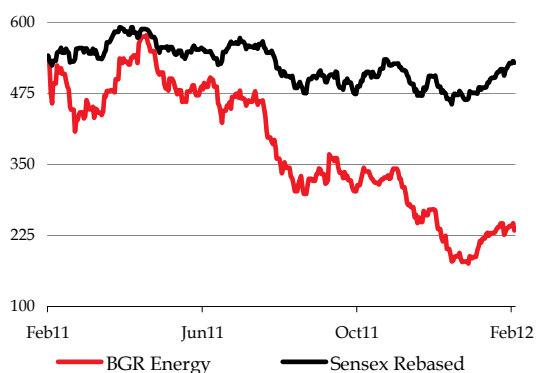
Last Price (INR)

234.1

Bloomberg code	BGRL IN
Reuters code	BGRE.BO
Avg. Vol. (3m)	857,679
Avg. Val.(3m)(INRmn)	197
52-wk H/L (INR)	588 / 172
Sensex	17,622
MCAP (INRbn/USDmn)	16.89 / 344

Shareholding (%)	9/11	12/11
Promoters	81.1	81.1
MFs, FIs, Banks	2.7	2.6
FIIIs	2.5	0.8
Public	8.2	9.5
Others	5.6	6.0

Stock Chart (Relative to Sensex)



Stock Perf. (%)	1m	3m	1yr
Absolute	25.1	-31.6	-56.8
Rel. to Sensex	14.0	-31.9	-54.5

Financials (INRmn)	03/11	03/12f	03/13f
Sales	47,394	32,658	36,237
YoY (%)	54	-31	11
EBITDA (%)	11.2	15.1	11.9
A.PAT	2,250	2,245	1,719
Sh o/s (diluted)	72	72	72
A.EPS (INR)	31.2	31.1	23.8
YoY (%)	12	0	-23
D/E (x)	0.7	1.4	1.1
P/E (x)	7.5	7.5	9.8
EV/E (x)	4.5	6.5	7.2
RoCE (%)	12	11	8
RoE (%)	27	22	14

Quarterly Trends	03/11	06/11	09/11	12/11
Sales (INRmn)	14,573	7,312	7,706	8,023
PAT (INRmn)	984	502	514	547

BGRL's revenue declined 36% y-o-y in the Dec11 quarter as execution slipped further than management targets. The EBITDA margin improvement to 16.3% in 3QFY12 is likely to reverse in FY13f. Revenue growth is forecast to resume in FY13f on execution spillover and improved orders. PAT is forecast to decline by 23% in FY13f on the high margin base of FY12f and on increased gearing. FY14f revenue growth prospects, on a lower base and order inflow outlook, are looking up. However, on a weak BTB ratio of 2.2x, the recovery in earnings growth in FY14f remains dependant on resumption of order inflows in FY13f. We roll over our target to Dec12 and cut it to INR209 based on 8x target P/E. Maintain rating at Reduce.

Execution weakens further; FY12 guidance of 28% revenue decline

BGRL reported a 36% y-o-y decline in revenue in the Dec11 quarter. Client side delays in design approval, certification and payments led to continued misses of the revenue target for FY12. FY12 revenue guidance has been cut sharply to INR34bn, implying a y-o-y decline of 28% compared to the c2% guided to at the end of the previous quarter. EBITDA margins continued to climb and stood at 16.1% in 3QFY12. Management attributed this to higher BOP revenue share (60% in the quarter) and the benefit of price variation clauses, implying supernormal margins on BOP orders. Postponement of certain costs may put future margins at risk. Management has guided to c12% margins in FY13f. Receivables declined by 3% q-o-q, but remained high at 368 days (on TTM revenues) of which 116 days are accounted for by retention money.

Revenue to recover, PAT may remain under pressure on a high base

We have cut our FY12f-FY14f EPS by up to 45%, following weak execution, lower inflows and sticky receivables. While FY12 revenue is forecast to decline by 31%, PAT is likely to remain flat on a rise in EBITDA margins. We assume order inflows to resume in FY13f, following which we factor in a CAGR of 11% in revenue over FY13f-FY14f. However, PAT is forecast to remain under pressure as EBITDA margins normalize off a high base and a rise in working capital leads to higher interest costs. We forecast FY13 EPS to decline by 23%. Recovery in earnings growth in FY14f is dependant upon resumption of order inflows in FY13f. Unbooked orders account for 26%/66% of our FY13f/FY14f revenue.

Maintain Reduce with a TP of INR209; earnings risk persist

BGRL's earnings remain vulnerable to continuing delays in orders, given its low BTB ratio of 2.2x. The near-term risk to earnings remains high on execution slippages and delayed payment from clients. However, revenue growth prospects on a reduced base and order inflow outlook are looking up, based on which we increase the target P/E from 6x to 8x compared to our target P/E of 10x for Bharat Heavy Electricals (BHEL IN, Reduce). We roll over our target to Dec12 and reduce it by 15% to INR209 (from INR245). Our TP does not include the value of investments worth INR9.6bn (INR133/share) in the BTG venture over the next three years. We maintain the rating at Reduce. Higher-than-forecast order inflows and better execution are risk factors.

Devang Patel, +91 022 66842861
devang.patel@avendus.com

Exhibit 1: Earnings revision summary

(INRmn)	FY12f			FY13f			FY14f		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenue	45,572	32,658	-28	43,400	36,237	-17	62,543	44,589	-29
EBITDA	5,561	4,922	-11	4,918	4,317	-12	6,858	4,613	-33
EBITDA margin (%)	12.2	15.1	287bp	11.3	11.9	58bp	11.0	10.3	-62bp
PAT	3,182	2,245	-29	2,352	1,719	-27	3,534	1,939	-45
EPS (INR)	44.1	31.1	-29	32.6	23.8	-27	49.0	26.9	-45
Order inflow	120,120	16,980	-86	44,880	112,900	152	66,000	81,840	24

Source: Avendus Research

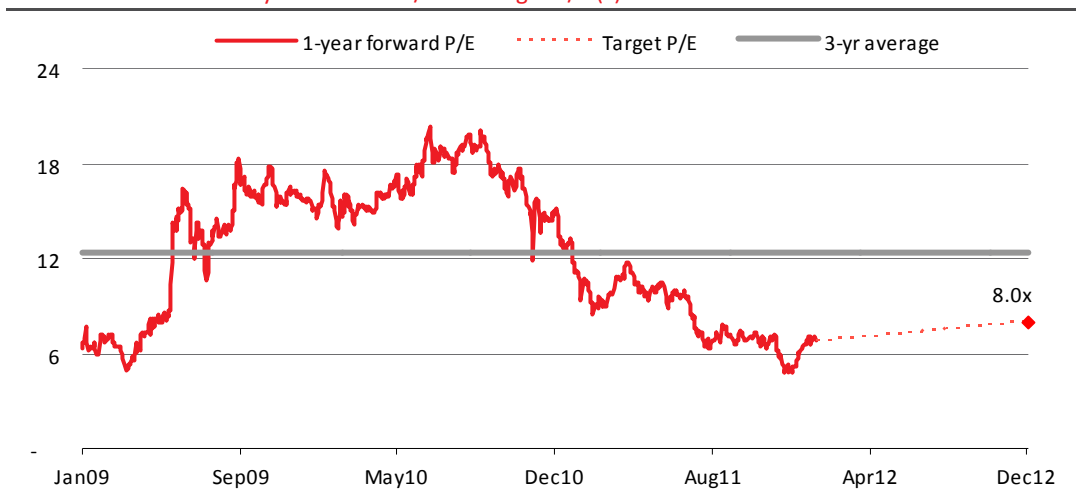
Exhibit 2: Change in consensus EPS estimates

(INR)	Bloomberg consensus estimate			Change from previous		
	FY12e	FY13e	FY14e	FY12e	FY13e	FY14e
Nov10	51.2	57.3				
Feb11	49.3	55.1		-4%	-4%	
Jul11	46.5	47.6	48.1	-6%	-14%	
Nov11	40.4	36.7	38.4	-13%	-23%	-20%
Feb12	38.9	33.3	33.2	-4%	-9%	-14%

Source: Bloomberg, Avendus Research

The target P/E for BGRL is increased from 6x to 8x. It implies the discount to BHEL reduces from 34% over the past year to 20% by Dec12, based on our 10x target P/E for BHEL.

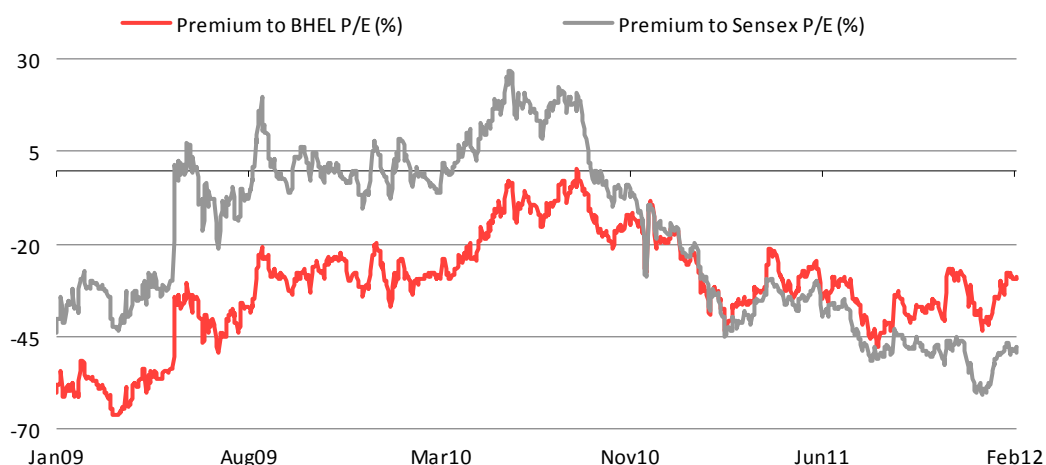
Exhibit 3: Historical one-year forward P/E and target P/E (x)



Source: Bloomberg, Avendus Research

Note: P/E computed based on consensus one-year forward rolling forecast

Exhibit 4: Historical premium to the Sensex and BHEL P/E



Source: Bloomberg, Avendus Research

Note: P/E computed based on consensus one-year forward rolling forecast

Risk factors

- ▶ Higher-than-forecast order inflows.
- ▶ Higher execution of the existing order book.
- ▶ Significant success in the BTG venture.

Exhibit 5: Standalone results snapshot for the Dec11 quarter

(INRmn)	Dec10	Sep11	q-o-q (%)	Dec11	y-o-y (%)
Total operating income	12,569	7,715	4	8,037	-36
Total operating expenses	11,097	6,613	2	6,724	-39
EBITDA	1,472	1,102	19	1,313	-11
Other income	17	0	-100	0	-100
Depreciation	34	40	3	41	20
EBIT	1,455	1,062	20	1,272	-13
Interest	168	302	53	462	175
Recurring PBT	1,287	761	7	810	-37
Net extra ordinary items	-	-	-	-	-
PBT (reported)	1,287	761	7	810	-37
Total taxes	411	247	6	263	-36
Net income (reported)	876	514	7	547	-37
Avendus net income	876	514	7	547	-37
Shares outstanding (mn)	72.1	72.2	0	72.2	0
EPS (INR)	12	7	7	8	-38
Operating ratios (%)					
EBITDA margin	11.7	14.3		16.3	
EBIT margin	11.6	13.8		15.8	
Net profit margin	7.0	6.7		6.8	
Other income/PBT	1.3	0.1		0.0	
Effective Tax rate	32.0	32.5		32.5	

Source: Company, Avendus Research

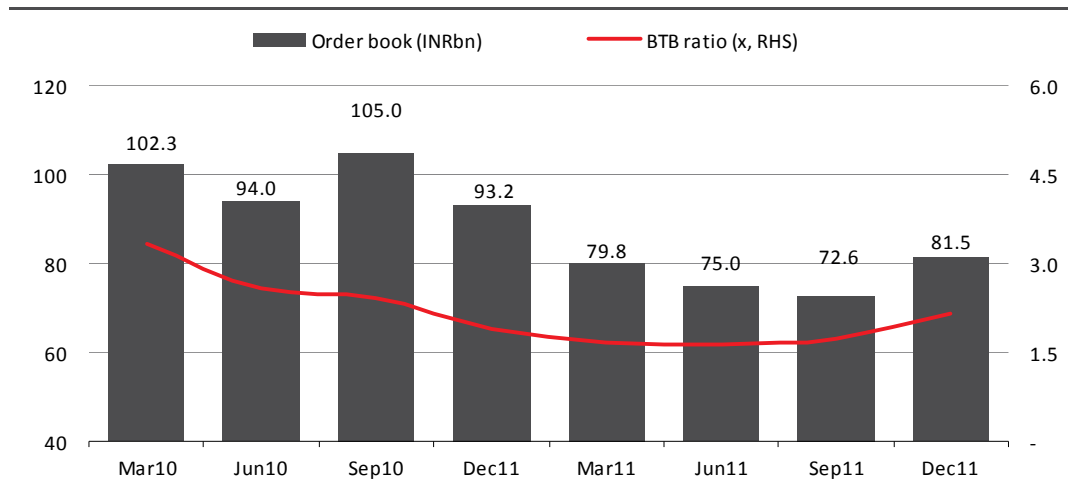
Exhibit 6: Segment-wise results summary

(INRmn)	Dec10	Sep11	q-o-q (%)	Dec11	y-o-y (%)
Segment revenue					
- Projects	11,878	6,791	7	7,271	-39
- Capital goods	632	915	-18	752	19
Total revenue	12,511	7,706	4	8,023	-36
Segment EBIT					
- Projects	1,388	880	34	1,181	-15
- Capital goods	50	182	-50	92	83
- Other un-allocated	17	0		0	-98
EBIT	1,455	1,062	20	1,272	-13
Segment margins (%)					
- Projects	11.7	13.0		16.2	
- Capital goods	7.9	19.9		12.2	
EBIT / Sales	11.6	13.8		15.9	

Source: Company, Avendus Research

Exhibit 7: Order book trend

EPC order worth
INR16.98bn for 2x300MW
project in Chhattisgarh
booked in Nov11 from
TRN Energy Private Ltd.



Source: Bloomberg, Avendus Research

Financials and valuations (standalone)

Income statement (INRmn)

Fiscal year ending	03/11	03/12f	03/13f	03/14f
Total operating income	47,394	32,658	36,237	44,589
Total operating expenses	42,101	27,736	31,920	39,976
EBITDA	5,293	4,922	4,317	4,613
Other income	133	25	32	40
Depreciation	168	167	201	241
EBIT	5,258	4,780	4,148	4,411
Interest	519	1,443	1,592	1,528
Recurring PBT	4,739	3,337	2,556	2,883
Net extra ordinary items	-	-	-	-
PBT (reported)	4,739	3,337	2,556	2,883
Total taxes	2,489	1,093	837	944
PAT (reported)	2,250	2,245	1,719	1,939
(+) Share in assoc. earnings	-	-	-	-
Less: Minority interest	-	-	-	-
Prior period items	-	-	-	-
Net income (reported)	2,250	2,245	1,719	1,939
Aventus net income	2,250	2,245	1,719	1,939
Shares outstanding (mn)	72.2	72.2	72.2	72.2
Aventus dil. shares (mn)	72.2	72.2	72.2	72.2
Aventus EPS (INR)	31.2	31.1	23.8	26.9

Growth ratios (%)

Total operating income	54.2	-31.1	11.0	23.0
EBITDA	53.8	-7.0	-12.3	6.8
EBIT	55.4	-9.1	-13.2	6.3
Recurring PBT	55.3	-29.6	-23.4	12.8
Aventus net income	11.8	-0.3	-23.4	12.8
Aventus EPS	11.5	-0.3	-23.4	12.8

Operating ratios (%)

EBITDA margin	11.2	15.1	11.9	10.3
EBIT margin	11.1	14.6	11.4	9.9
Net profit margin	4.7	6.9	4.7	4.3
Other income/PBT	2.8	0.8	1.2	1.4
Effective Tax rate	52.5	32.7	32.7	32.7

Balance sheet (INRmn)

Fiscal year ending	03/11	03/12f	03/13f	03/14f
Equity capital	722	722	722	722
Preference capital	-	-	-	-
Reserves and surplus	8,776	10,499	11,814	13,299
Net worth	9,498	11,221	12,536	14,021
Minority interest	-	-	-	-
Total debt	13,363	20,363	18,863	20,363
Deferred tax liability	3,117	3,544	3,871	4,240
Total liabilities	25,978	35,128	35,270	38,624
Gross block	2,099	2,520	3,024	3,630
less: Acc. depreciation	475	642	843	1,084
Net block	1,624	1,877	2,181	2,546
CWIP	130	130	130	130
Goodwill	-	-	-	-
Investments	1,368	2,368	4,868	9,648
Cash	9,465	8,722	8,621	9,513
Inventories	384	264	293	360
Debtors	31,572	38,027	39,216	44,589
Loans and advances	8,847	10,228	8,276	6,492
less: Current liabilities	23,868	23,081	24,642	30,195
less: Provisions	3,544	3,407	3,673	4,459
Net working capital	22,856	30,753	28,091	26,301
Total assets	25,978	35,128	35,270	38,624

Cash flow statement (INRmn)

Fiscal year ending	03/11	03/12f	03/13f	03/14f
Net profit	2,250	2,245	1,719	1,939
Depreciation	168	167	201	241
Deferred tax	1,528	427	327	369
Working capital changes	-7,375	-8,640	2,561	2,682
Less: Other income	133	25	32	40
Cash flow from operations	-3,562	-5,826	4,776	5,192
Capital expenditure	-421	-421	-505	-606
Strategic investments	-1,320	-1,000	-2,500	-4,780
Marketable investments	-	-	-	-
Change in other loans & adv.	-	-	-	-
Goodwill paid	-	-	-	-
Other income	133	25	32	40
Cash flow from investing	-1,608	-1,395	-2,973	-5,346
Equity raised	-	-	-	-
Change in borrowings	5,299	7,000	-1,500	1,500
Dividends paid (incl. tax)	-842	-522	-404	-454
Others	1,051	0	0	0
Cash flow from financing	5,507	6,478	-1,904	1,046
Net change in cash	338	-743	-101	892

Key Ratios

Fiscal year ending	03/11	03/12f	03/13f	03/14f
Valuation ratios (x)				
P/E (on Aventus EPS)	7.5	7.5	9.8	8.7
P/E (on basic, reported EPS)	7.5	7.5	9.8	8.7
P/CEPS	7.0	7.0	8.8	7.7
P/BV	1.8	1.5	1.3	1.2
Dividend yield (%)	4.3	2.6	2.1	2.3
Market cap. / Sales	0.4	0.5	0.5	0.4
EV/Sales	0.5	1.0	0.9	0.7
EV/EBITDA	4.5	6.5	7.2	6.9
Net Cash / Market cap.	56.1	51.7	51.1	56.4
Per share ratios (INR)				
Aventus EPS	31.2	31.1	23.8	26.9
EPS (Basic, reported)	31.2	31.1	23.8	26.9
Cash EPS	33.5	33.4	26.6	30.2
Book Value	131.6	155.5	173.7	194.3
Dividend per share	10.0	6.2	4.8	5.4
Total assets / equity (x)	2.6	2.9	3.0	2.8
Return ratios (%)				
ROCE	11.7	10.5	7.9	8.0
ROIC	21.0	15.1	10.6	10.7
ROE	27.2	21.7	14.5	14.6
ROA	10.6	7.3	4.9	5.2
OCF/Sales	-7.5	-17.8	13.2	11.6
FCF/Sales	-8.4	-19.1	11.8	10.3
Turnover ratios (x)				
Asset turnover (x)	2.2	1.1	1.0	1.2
Gross asset turnover	22.6	13.0	12.0	12.3
Inventory / Sales (days)	1.5	3.6	2.8	2.7
Receivables (days)	197.8	388.9	389.0	343.0
Payables (days)	199.4	352.4	312.1	283.8
Working capital cycle (days)	74.7	197.9	209.0	148.4
Solvency ratios (x)				
Gross debt to equity	1.7	2.1	1.8	1.8
Net debt to equity	0.7	1.4	1.1	1.1
Net debt to EBITDA	2.5	4.1	4.4	4.4
Interest Coverage (on EBIT)	10.1	3.3	2.6	2.9

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	Analyst ownership of the stock	Avendus or its associate company's ownership of the stock	Investment Banking mandate with associate companies of Avendus
BGR Energy Systems	No	No	No

OUR OFFICES

Avendus Securities Private Limited

Mumbai: 6th Floor, B Quadrant, IL&FS Financial Centre, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051 **T: +91 22 6648 0050 F: +91 22 6684 2870**

Avendus Capital Private Limited

Mumbai: 5th Floor, B Quadrant, IL&FS Financial Centre, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051 **T: +91 22 6648 0050 F: +91 22 66480040**

Bangalore: The Millenia Tower, A - 10th Floor, No 1 & 2 Murphy Road, Ulsoor, Bangalore - 560 008, India **T: +91 80 6648 3600 F: +91 80 6648 3636**

New Delhi: Suite 22A/B, The Aman Resort, Lodhi Road, New Delhi - 110 003, India **T: +91 11 4535 7500 F: +91 11 4535 7540**

London: Avendus Capital (U.K.) Private Limited, 33, St James's Square, London, SW1Y 4JS **T: +44 203 159 4353 F: +44 207 661 9400**

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