

## The Week Gone By

Weekly Newsletter



Parag's View 

### Up and Up and Up?

Bubble talk is all the rage right now, with prices of commodities soaring into the stratosphere. Case in point: The spike in oil prices last week, to \$138.54. Sure, oil has drifted back down a bit, but it's still above \$130—vastly higher than the \$100 a barrel of last January, let alone the \$26 of five years ago. A similar story holds with food and metals.

We've seen this kind of sustained, scary price rise and manic, speculative fever before, haven't we? And we know the outcome, right? The jaw-dropping, wealth-creating boom will end in an awe-inspiring, wealth-destroying bust.

That's what happened with real estate and How about Web mania?

### Men Think in Herds

Bubbles are the most fascinating and frightening stories in finance. The dot-com and housing market bubbles are only the most recent episodes of speculative frenzies, a legendary history that includes debacles such as tulip mania, the South Sea Bubble, the Mississippi Bubble, and the Roaring '20s.

In retrospect, looking at the financial and economic carnage when a bubble goes pop, there's always the puzzle over how so many smart people could be so dumb with their money. Charles Mackay, author of the 19th-century classic *Extraordinary Popular Delusions and the Madness of Crowds*, captured the essential dynamic. "Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they only recover their senses slowly, and one by one."

Speculative fevers often emerge during times of major innovations and technological change. By definition, the impact of innovation is unpredictable. What new technologies and business models will win out in a competitive market is difficult, if not

impossible, to predict. A bubble is capitalism's way of rapidly transforming an economy.

Bubble moralizers greatly underestimate the vital role of speculators and speculative markets in allocating resources toward an economy's fast-growing sectors and away from stagnant industries.

Lets understand the current situation. Much of the rise in prices for oil (and food for that matter) reflects the growth of India and China. But remember all the warnings about the developed world's eagerness to invest in China, India, Vietnam, and other emerging frontiers of global capitalism, how it had all the earmarks of a bubble. The bubble worriers will eventually be proved right. Too much money is flowing into emerging markets.

While the "hot money" is flowing in, the investment is building ever tighter and stronger economic ties between the developed and developing economies, creating wealth at an unprecedented rate, building bridges that will strengthen in coming decades. And it's the growing economic vigor of a vastly healthier global economy that is pushing up the price of commodities. These higher prices are encouraging enormous increases in investment in alternative energy and increased agricultural production.

Will the boom go bust? Of course it will. Fortunes will be made and lost. Investments will coin money or vanish. But much of what will remain will be real, and of lasting value. Lets see the positive side of the bubble and thank the speculators for the good.

Inside 

BGR Energy Systems Limited

Page 2

## BGR Energy Systems Limited

CMP Rs. 288.0

Research Analyst : Anuj Anandwala

BGR Energy Systems was originally incorporated in 1985, as a joint venture between GEA Energietechnik GmbH, Germany and Mr. 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. In 1993 Mr. B.G. Raghupathy and members of his family became the sole shareholders of the Company and began to expand the range of product and services range in the Power and Oil & Gas industries. On June 28, 2007 the company changed its name from GEA Energy System (India) Limited, to BGR Energy Systems Limited.

BGR Energy Systems is primarily into two business segments: turnkey EPC (engineering, Procurement and Construction) contracts for either BOP (Balance Of Plant) or entire power plants; and industrial products comprising supply of systems and equipment such as heat exchangers, pressure vessels, condensers, high frequency resistance welded finned tubes, deaerators, and pipeline equipment used in the power, oil and gas, refinery, petrochemicals, and process industries. The company has a manufacturing facility at Panjetty near Chennai for airfin coolers; and production of heat exchangers, pressure vessels, reactors, columns, surface condensers and finned tubes manufactured by its subsidiary Progen Systems and Technologies (Progen). The company has executed 131 projects so far in 42 countries and has an order book of over Rs. 32Bn, 75% of which is contributed by power projects, with the oil & gas industry representing 13%. : The company is well placed to benefit from the spurt in domestic power generation industry, which may invest Rs. 30 lakh Mn in the next five years to add over 65,000MW of capacity. From BOP contracts, it's moving up the value chain to obtain main engineering, procurement and construction (EPC) contracts. Overseas manufacturing facilities and Mundra SEZ will help reduce delivery time and improve cost efficiencies.

The company is, at present, executing major contracts including a 330MW gas-based power project in Dholpur, Rajasthan, and one 500MW BOP (balance of power) contract each for the Vijayawada and Bhoopalapalli thermal power stations from Andhra Pradesh Power Generation Corporation Ltd.

The company has seven complimentary businesses: -.

- Power Projects business.
- Captive Power Projects.
- Oil and Gas Equipments business.
- Air Fin Coolers business.
- Environmental Engineering business.
- Electrical Projects business.
- Infrastructure business.

Order Book Backlog Status - May'08 (Rs. Mn)

Division	Domestic	International	Total
Air Fin Cooler	818	71	889
Oil & Gas Equipment Division	45	3544	3589
Environmental Engineering	91	40	131
Electrical Projects	449	-	449
Power Projects	26263	-	26263
Captive Power	670	-	670
TOTAL	28336	3655	31991

To strengthen its position among competitors, BGR has entered into alliances for its different business segments. For instance, it has formed global marketing agreements with Samsung (air-fin coolers); Termomeccanica Ecologia, Italy, for environmental engineering; SK Engineering & Construction, Korea, to jointly explore opportunities in the domestic market for infrastructure projects; and Ariel Corporation for oil and gas equipment.

## Industry Overview

BOP is the weakest link in Indian Power Equipment space as there are very limited players in the field. Proven track record in project management backed by design and engineering capabilities augur well for a company like BGR Energy Systems. Typically, the BOP package accounts for 40% of the power plant cost and power producer manufactures about 40% of the BOP equipment in-house, giving BOP suppliers an edge. Order inflow for the industry continue to be strong across the board as strong investment splurge continue to happen in power sector as well as due to no let down in capacity building at manufacturing sector.

To cap it all the industry has also geared itself with right investment in capacity and filling their gaps in the product/service value chain so as to capitalize on the sustaining good run and changing dynamics of the user industries. The domestic majors have also penetrated global markets significantly so as to diversify their geographical risks. The extension of service to include EPC for the entire power plant and captive power plants has widened the canvas for the company specifically. With GDP growth of India hovering around 8-8.5%, the sector is expected to perform consistently in coming times.

## Strengths

- Energy sector of India is expecting tremendous growth in the coming times, fuelled primarily by a burgeoning economy and huge demand from the infrastructure sector.
- The company has posted impressive growth in topline (sales) / bottomline (PAT) over the years.
- The company has a strong order book of over Rs. 32Bn which is expected to generate impressive and consistent cash flow in future. Such an order book will help company maintain its growth rate in coming times.
- BGR Energy has diverse complimentary products, services portfolio and project management capability. It is the only business group (including subsidiary Progen) in India capable of producing all three variations of finned tubes (extruded finned, embedded finned and welded finned tubes) for different applications. The company has executed 131 projects so far in 42 countries.

## Risk Factors

- Bhel has banned business dealings with BGR Energy Systems for three years, alleging cartelisation to obtain a higher price.
- Since it also operates in infrastructure space, the company faces execution risks and delay in completion of its project.
- Since the company works on projects all over the globe, it is exposed to risks associated with volatility in exchange rate of currencies of various countries.
- The company has a high Debt-Equity ratio of 2.9 for FY2007 suggesting high leveraging by the company for its projects. A highly leveraged position isn't desired for a company working in this sector in which BGR Energy operates. It also suggests higher expense in the form of interest for the company.
- There is no cushion of price variation available to insulate margin from the vagaries of fluctuation in metal and other input prices.

## Valuations

Based on annualised EPS for the period ended Mar'08, P/E stands at 24.5 on CMP of Rs. 288/-. The group of comparable listed companies from engineering/capital goods space trades at an average P/E of 61.4 based on EPS of trailing 12 months. Some companies like Sunil Hitech and Techno Electric are trading at P/E of around 36 times. Though the valuations are slightly stretched based on past performance, but given the high growth potential of the sector in general and a relatively larger and more diversified portfolio of company in specific. However, BGR is relatively larger and has a more diversified profile.

## BGR Energy Systems Ltd. - Quarterly Financials

Earnings Statement				standalone			consolidated		
YE March (Rs. Mn.)	Q408	Q308	Q-Q(%)	12M08	18M07	Y-Y(%)	12M08	18M07	Y-Y(%)
Net Revenues	5,786.1	3,827.6	51.2%	15,048.3	7,751.4	94.1%	15,205.3	7,868.0	93.3%
Cost of Materials	4,881.8	3,176.0	53.7%	12,607.0	5,551.7	127.1%	12,681.6	5,598.9	126.5%
Gross Profit	904.2	651.6	38.8%	2,441.3	2,199.8	11.0%	2,523.8	2,269.1	11.2%
Stock Adjustment	6.9	67.8	-89.8%	15.7	(22.3)	-170.2%	28.8	(31.8)	-190.5%
Staff Costs	132.1	97.3	35.9%	441.7	686.5	-35.7%	450.5	328.3	37.2%
Other Expenses	249.0	94.2	164.5%	473.9	678.3	-30.1%	491.1	1,090.4	-55.0%
Total Expenditure	388.1	259.2	49.7%	931.2	1,342.5	-30.6%	970.4	1,386.9	-30.0%
Operating Profit	516.1	392.3	31.6%	1,510.1	857.3	76.2%	1,553.4	882.2	76.1%
OPM (%)	8.92%	10.25%	-13.0%	10.04%	11.06%	-9.3%	10.22%	11.21%	-8.9%
Other Income	28.8	2.7	972.1%	44.9	3.4	1227.3%	51.9	3.0	1630.7%
EBITDA	545.0	395.0	38.0%	1,555.0	860.6	80.7%	1,605.3	885.2	81.4%
Depreciation	13.3	12.7	4.7%	50.2	81.3	-38.2%	55.4	88.8	-37.6%
EBIT	531.7	382.4	39.1%	1,504.8	779.4	93.1%	1,549.9	796.4	94.6%
Interest	89.0	62.1	43.2%	252.3	174.4	44.7%	254.3	179.7	41.5%
PBT	442.8	320.2	38.3%	1,252.5	605.0	107.0%	1,295.7	616.7	110.1%
Tax	137.5	102.0	34.8%	408.0	213.0	91.5%	411.1	213.2	92.8%
PAT	305.2	218.2	39.9%	844.4	392.0	115.4%	884.6	403.5	119.2%
Equity Capital	720.0	648.0	11.1%	720.0	108.0	566.7%	720.0	648.0	11.1%
EPS	4.2	3.4	25.9%	11.7	7.3	61.6%	12.3	6.2	97.3%
Ratio Analysis				standalone			consolidated		
Profitability									
YE March (Rs. Mn.)	Q408	Q308	Q-Q(bps)	12M08	18M07	Y-Y(bps)	12M08	9M08 +Q3	Y-Y(bps)
OPM (%)	8.9%	10.3%	(133.0)	10.0%	11.1%	(102.4)	10.22%	11.21%	(99.6)
EBITDA (%)	9.4%	10.3%	(90.2)	10.3%	11.1%	(77.0)	10.56%	11.25%	(69.3)
EBIT (%)	9.2%	10.0%	(80.0)	10.0%	10.1%	(5.5)	10.19%	10.12%	7.1
PAT (%)	5.3%	5.7%	(42.6)	5.6%	5.1%	55.5	5.82%	5.13%	69.0
Operational Parameters				standalone			consolidated		
YE March (Rs. Mn.)	Q408	Q308	Q-Q(bps)	12M08	18M07	Y-Y(bps)	12M08	18M07	Y-Y(bps)
RM Consumed	84.4%	83.0%	139.5	83.8%	71.6%	1,215.5	83.4%	71.2%	1,224.2
Staff Cost	2.3%	2.5%	(25.7)	2.9%	8.9%	(592.2)	3.0%	4.2%	(121.0)
Other Expenditure	4.3%	2.5%	184.4	3.1%	8.8%	(560.1)	3.2%	13.9%	(1,062.9)
Effective Tax Rate	31.1%	31.9%	(80.0)	32.6%	35.2%	(263.4)	31.7%	34.6%	(284.7)

## BGR Energy Systems Ltd. - Financials

Earnings Statement					Balance Sheet			
Particulars (Rs Mn)	FY04	FY05 (12Months)	FY07 (18Months)	12M08	Particulars (Rs Mn)	FY04	FY05 (12Months)	FY07 (18Months)
Net Sales	2,664.6	2,890.0	7,751.4	15,048.3	Equity Capital	108.0	108.0	108.0
- Growth (%)		8.5%	168.2%	94.1%	Share Application Advance	0.9	0.9	0.0
Total Expenditure	2,467.6	2,620.3	6,894.2	13,538.2	Reserves	270.1	378.0	732.1
Operating Profit	197.0	269.7	857.3	1,510.1	Shareholders Funds	379.0	486.9	840.1
Other Income	2.9	2.2	3.4	44.9	Borrowed Funds	535.2	863.3	2,437.1
EBITDA	199.9	271.9	860.6	1,555.0	Deferred Tax Liability	18.5	23.9	12.5
- Growth (%)		36.0%	216.5%	80.7%	Total Liabilities	932.7	1,374.1	3,289.7
Depreciation	15.4	27.6	81.3	50.2	Fixed Assets	156.1	256.0	336.1
EBIT	184.5	244.3	779.4	1,504.8	Investments	49.3	49.3	51.1
Interest	42.3	57.4	174.4	252.3	Current Assets			
PBT	142.2	186.9	605.0	1,252.5	Inventory	216.9	157.7	260.4
Tax	31.8	54.4	213.0	408.0	Sundry Debtors	616.6	1,165.7	3,669.9
PAT Before EI	110.4	132.6	392.0	844.4	Loans & Advances	245.9	269.2	882.9
Reported PAT	110.4	132.6	392.0	844.4	Cash & Bank Balance	219.7	180.6	921.1
- Growth (%)		20.1%	195.7%	115.4%	Other Current Assets	17.7	34.6	48.9
					Current Liabilities			
					Sundry Creditors	523.7	646.0	2,618.8
					Provisions	73.7	96.7	261.8
					Net Current Assets	719.4	1,065.1	2,902.5
					Miscellaneous Expenditure	7.9	3.7	0.0
					Total Assets	932.7	1,374.1	3,289.7
Ratio Analysis					Ratio Analysis			
Particulars	FY04	FY05 (12Months)	FY07 (18Months)		Particulars	FY04	FY05 (12Months)	FY07 (18Months)
OPM (%)	7.4%	9.3%	11.1%		Debt/Equity Ratio (x)	1.4	1.8	2.9
EBITDA (%)	7.5%	9.4%	11.1%		Inventory T/o Days	29.7	19.9	12.3
PBIT (%)	6.9%	8.5%	10.1%		Debtors T/o Days	84.5	147.2	172.8
PAT (%)	4.1%	4.6%	5.1%		Advances T/o Days	33.7	34.0	41.6
Interest Cover (x)	4.4	4.3	4.5		Creditors T/o Days	71.7	81.6	123.3
EPS (Rs.)	10.2	12.3	36.3		Working Cap T/o Days	98.5	134.5	136.7
P/E (x)	28.1	23.4	7.9		Fixed Assets T/o (Gross)	10.6	7.7	15.3
P/BV (x)	8.4	6.4	3.7		DPS (Rs.)	2.0	2.0	3.0
BVPS (Rs.)	34.4	44.7	77.8		Dividend Payout (%)	19.6%	16.3%	8.3%
Market Cap (Rs. Mn.)	3,106.1	3,106.1	3,106.1		Dividend Yield (%)	0.7%	0.7%	1.0%
M Cap/Sales (x)	1.2	1.1	0.4					
EV (Rs. Mn.)	3,372.3	3,739.5	4,571.0					
EV/EBITDA (x)	16.9	13.8	5.3					
EV/Sales (x)	1.3	1.3	0.6					
ROCE (%)	20.4%	18.1%	23.8%					
RONW (%)	29.7%	27.4%	46.7%					

Local Equity Market					
INDICES	16-Jun-08	Week Ago	% Chng	Month Ago	% Chng
Sensex	15,189.62	15,572.18	(2.46)	17,353.54	(12.47)
Nifty	4,517.10	4,627.80	(2.39)	5,115.25	(11.69)
CNX Nifty Junior	7,404.75	7,648.15	(3.18)	8,910.55	(16.90)
S&P CNX500	3,634.80	3,730.50	(2.57)	4,159.30	(12.61)
CNX Midcap 200	6,091.10	6,193.20	(1.65)	6,896.10	(11.67)
CNX IT	4,322.70	4,571.30	(5.44)	4,569.00	(5.39)

International Equity Market					
INDICES	16-Jun-08	Week Ago	% Chng	Month Ago	% Chng
DJIA	12,307.35	12,209.81	0.80	12,992.66	(5.27)
Nasdaq	2,454.50	2,474.56	(0.81)	2,533.73	(3.13)
S&P 500	1,360.03	1,360.68	(0.05)	1,423.57	(4.46)
FTSE 100	5,802.80	5,906.80	(1.76)	6,251.80	(7.18)
Nikkei 225	13,973.73	14,489.44	(3.56)	14,251.74	(1.95)
Hang Seng	22,592.30	24,402.18	(7.42)	25,513.71	(11.45)
HSCEI	12,213.12	13,513.21	(9.62)	14,027.55	(12.93)

MSCI Indices					
MSCI Indices	16-Jun-08	Week Ago	% Chng	Month Ago	% Chng
The World Index	1,459.95	1,496.48	(2.44)	1,555.61	(6.15)
Emerging Market	1,120.02	1,182.84	(5.31)	1,240.31	(9.70)
EM Asia	417.22	447.19	(6.70)	474.63	(12.10)
EM India	441.70	458.75	(3.72)	517.85	(14.70)

Commodities					
Commodities	16-Jun-08	Week Ago	% Chng	Month Ago	% Chng
GOLD (\$/oz)	872.58	892.90	(2.28)	902.40	(3.30)
SILVER (\$/oz)	16.59	17.11	(3.04)	16.96	(2.18)
ALUMINIUM (\$/t)	2,945.00	2,952.00	(0.24)	3,040.00	(3.13)
COPPER (\$/t)	7,980.00	7,980.00	-	8,439.00	(5.44)
CRUDE - BRENT (\$/bbl)	134.49	134.36	0.10	125.38	7.27
CRUDE - WTI (\$/bbl)	134.02	134.35	(0.25)	126.04	6.33

Transportation					
Commodities	16-Jun-08	Week Ago	% Chng	Month Ago	% Chng
World SCALE	197.50	175.00	12.86	212.50	(7.06)
BALTIC FREIGHT INDEX	9,646.00	11,534.00	(16.37)	11,459.00	(15.82)

Forex					
FOREX	16-Jun-08	Week Ago	% Chng	Month Ago	% Chng
USD	42.88	43.04	(0.37)	42.56	0.75
GBP	83.52	84.83	(1.54)	82.88	0.77
EURO	65.95	67.91	(2.88)	65.75	0.31
YEN	39.63	41.02	(3.39)	40.63	(2.46)

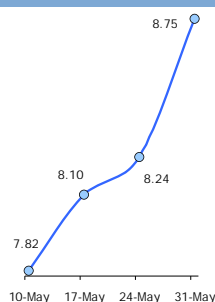
Global Listings					
Scripts	14-Jun-08	Week Chng	Month Chng	Premium/D iscount	Share per ADR/GDR
Infosys ADR	47.32	0.87	1.96	8.70%	1
Wipro ADR	13.53	0.07	1.88	21.37%	1
ICICI Bank ADR	36.65	5.71	(22.02)	2.68%	2
Satyam ADR	27.30	2.21	1.14	21.69%	2
HDFC Bank ADR	84.64	(0.99)	(20.88)	7.81%	3
MTNL ADR	4.48	(1.32)	(10.10)	1.64%	2
Dr. Reddy ADR	16.68	4.58	4.80	-1.73%	1
Reliance GDR	105.25	3.95	(17.52)	-0.61%	2
ITC GDR	4.50	(5.26)	(13.64)	-2.62%	1
Ranbaxy GDR	13.01	7.43	1.76	-1.58%	1
L & T GDR	62.60	3.64	(15.05)	-1.06%	1

Top Gainers & Losers of the Week		
Top Gainers	Jun 16, 08	% Chng
GHCL Ltd.	72.00	42.15
Bosch Chassis Systems India Ltd.	565.90	25.67
Zandu Pharmaceutical Works Ltd.	12,474.00	25.04
Aurobindo Pharma Ltd.	329.85	16.84
Gujarat Mineral Development Corporation Ltd.	290.70	16.12
Himatsingka Seide Ltd.	54.05	13.79
Chambal Fertilizers & Chemicals Ltd.	91.20	12.80
Ranbaxy Laboratories Ltd.	566.85	11.83

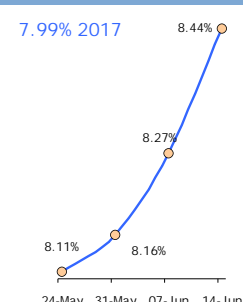
Top Losers		
Bajaj Auto Finance Ltd.	147.70	(33.29)
Patel Engineering Ltd.	381.10	(16.34)
Unity Infraprojects Ltd.	380.20	(16.06)
Saregama India Ltd	101.20	(15.10)
Gujarat Ambuja Exports Ltd.	38.95	(13.54)
Alstom Projects India Ltd.	435.50	(13.20)
Gammon India Ltd.	358.85	(12.76)
Suzlon Energy Ltd.	244.90	(12.58)

Sectoral Performance			
Sectors	Week	Month	3 Months
Chemicals - Inorganic	11.41	(5.30)	6.45
Mining	7.47	(6.17)	(0.72)
Fertilisers	6.96	0.90	12.53
Abrasives	6.72	7.23	(0.57)
Telecommunication - Equipment	4.00	(10.87)	(5.50)
Pharmaceuticals	3.51	1.44	13.48
Textile Products	2.73	(8.19)	(1.31)
Dyes And Pigments	2.48	(8.16)	(10.65)
Personal Care	1.87	(1.96)	3.55
Pesticides And Agrochemicals	1.63	(1.68)	13.53
Chemicals - Organic	1.58	(2.18)	3.33
Automobiles - 2 And 3 Wheelers	1.36	(10.33)	(1.07)
Sugar	1.33	(17.29)	(7.63)
Airconditioners	1.30	(11.03)	(11.50)
Castings/Forgings	1.12	(16.05)	(7.40)
Textiles - Cotton	1.00	(14.11)	(2.51)
Transmission Towers	0.68	(15.35)	(25.85)
Cycles	0.66	(8.73)	(16.89)
Telecommunication - Services	0.62	(3.58)	2.75
Gems Jewellery And Watches	0.56	(11.27)	(3.33)

Inflation (%)



10 year G-Sec Bond Yield



## DISCLAIMER

This report does not constitute or form part of, and should not be construed as, any offer of sale or a solicitation to buy any security. The information contained herein is from sources believed to be reliable, but no representation or warranty, express or implied, is made to its accuracy. PPFAS and/or its clients may have positions in the securities mentioned in the report and may offer to buy, sell such securities or any related investments.